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Profile of the profession: 1975: Historical record of Committee activities, 1956-1965, Volume II

American Institute of Certified Public Accountants. Committee on Long-Range Objectives

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PROFILE OF THE PROFESSION:

1975

HISTORICAL RECORD OF COMMITTEE ACTIVITIES

**AICPA
LRO COMMITTEE
1956-1965
VOLUME I**

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

LONG-RANGE OBJECTIVES COMMITTEE

1956 - 1965

HISTORICAL RECORD OF COMMITTEE ACTIVITIES

COMPOSITION OF LONG-RANGE OBJECTIVES COMMITTEE

1956 - 1965

1956-1958

J. S. Seidman, Chairman
Herman W. Bevis
Robert E. Witschey

1958-1959

J. S. Seidman, Chairman
Herman W. Bevis
Robert M. Trueblood
Robert E. Witschey

1959-1961

Herman W. Bevis, Chairman
Norton M. Bedford
Clifford V. Heimbucher
Robert M. Trueblood

1961-1963

Robert M. Trueblood, Chairman
Norton M. Bedford
Malcolm M. Devore
Clifford V. Heimbucher

1963-1965

Robert M. Trueblood, Chairman
Norton M. Bedford
Malcolm M. Devore
David F. Linowes

John L. Carey, ex-officio

PREFACE

The future of the profession necessarily involves change. Hopefully, the future involves change that will renew and expand the profession's current strength and stature. But change in such desired directions requires planning--planning to set the objectives toward which the profession must strive, and planning to outline paths that will take us to these goals.

In 1956, the Long-Range Objectives Committee of the American Institute of Certified Public Accountants began the task of looking at the future of the profession. Under the chairmanship of Jack Seidman and Herman Bevis, the Committee began work on a number of current problems--the solution of which seemed to affect directly the profession's future.

During the period from 1956 to 1960, the Committee produced ten articles setting forth suggested alternatives and solutions in specific problem areas. Initially published in The Journal of Accountancy, these papers were edited by Jack Carey and compiled in a monograph in 1962. This monograph, published by the American Institute of CPAs was entitled The Accounting Profession: Where Is It Headed?

During the Committee's first five years, the problems and the solutions discussed in these articles formed the basis for action recommendations to the Council of the American Institute of Certified Public Accountants. Not all of the recommendations proposed by the Long-Range Objectives Committee were successful. Most frequently, however, they were received with favor. All in all, the Council acted favorably upon ten propositions submitted by the Committee, although implementing action on two proposals was ultimately rejected.

Encouraged by their success with currently identifiable problems, the Long-Range Committee undertook a somewhat more ambitious project in 1961. The Committee decided to attempt to identify the future problems which the profession could reasonably expect to encounter. For this purpose, the future was defined as approximately 1975. In effect, the Committee asked: "What forces are at work which will produce problems for us in 1975?" "What kinds of problems and how severe will they be?" The resulting questions were codified by subject and formalized in a Committee working paper entitled "Profile of the Profession: 1975."

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Having formulated this long series of questions, the Committee was confronted with attempting to answer them. Although the Committee could not and did not hope to provide definitive answers to all of the profession's future problems, it approached the task with the hopeful view of at least making available some analysis and insight that would be useful in consideration of these questions by all members of the profession.

The Committee proceeded to look at the problem of the future in several ways. First, the views of knowledgeable consultants were sought. A number of consultants practicing in basic disciplines other than accounting were each asked to spend a day in free dialogue with the Committee. These sessions with each individual consultant were recorded and transcripts of these sessions were made.

At each such symposium, one member of the Committee was asked to prepare a "position working paper." These position working papers were reviewed in each case by the participating consultant, as well as the other members of the Committee.

Although prepared by a member of the Committee and reviewed by the consultant involved, the position working papers were not developed as either polished documents or as final position treatises. In each case the paper was the responsibility only of its author. The position working papers were made available to all officials of the American Institute and to state societies. The papers were also made available to all members of the Institute on a request basis.

A second way that the Committee attempted to assess the future involved meetings with people within the profession. A number of meetings were held with individual practitioners, state society executives, American Institute staff members, and others. At these meetings, the views of practitioners were solicited toward the questions being considered and their possible solutions.

In addition, the members of the Committee, during their discussions, referred one another to books and articles bearing on the subjects under discussion, all of which formed a substantial part of the basis for the final product.

At the conclusion of the Committee's inquiry, Jack Carey undertook to put together the questions raised and their analyses. With considerable reference to transcripts, position working papers, discussions,

and with total recall of everything that he has read in the past several years, Jack has written another book, The CPA Plans For the Future. This book was released by the American Institute of CPAs in early 1965.

* * * * *

This historical record of the Long-Range Committee includes much of the supporting material for The CPA Plans For the Future. The results of the activities and recommendations of the Committee from its inception to the present time are summarized in the Committee Reports to Council which are included herein. Reprints of the published papers of the Committee during the years 1958 to 1962 and the objectives and implementing resolutions passed by Council are also included. Finally, this volume contains copies of all position working papers produced by the Committee in 1962 and subsequent years.

The only semi-official material excluded from this volume are reports on conferences held by the Committee where either the meeting was privileged because of the position of the participants, or where the discussion was of such a nature that it could not be digested in summary form.

With the exception of these less important omissions, this volume includes the entire legislative history of the Long-Range Objectives Committee from its organization in 1956 to its dissolution in 1965. As a final record, this volume is published with a fitting look toward the future. It is the Committee's hope that it will be a useful reference to some other long-range objectives committee which may be studying the 1980's and 1990's--as the profession in its future continues to pause to plan, and then goes ahead to progress.

Robert M. Trueblood

March 31, 1965

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SUMMARY OF
OBJECTIVES PROPOSED BY THE
LONG-RANGE OBJECTIVES COMMITTEE

FOLLOWING ARE OBJECTIVES and implementing resolutions submitted to the Council of the AICPA by its Committee on Long-Range Objectives from the creation of the Committee in 1957 through the present time. The action taken by the Council is indicated parenthetically in each instance. The objectives are set forth in the chronological order of their presentation.

April 1958

Objective:

It is an objective of the Institute to serve as the national organization of certified public accountants in and out of public practice, and to develop and maintain the form of organization best adapted to the needs of all its members.

(Adopted by Council on April 21, 1958.)

October 1958

Objective:

It is an objective of the Institute to encourage cooperation and consultation among national organizations of accountants to the end that the entire accounting function may make its greatest contribution to the public welfare.

Implementing Resolution:

RESOLVED, That the matter of developing a specific program for carrying out the objective of encouraging cooperation and consultation among national organizations of accountants be referred to the Executive Committee with power to proceed.

(Adopted by Council on October 11, 1958.)

April 1959

Objective:

Pending the time when public practitioners within the accounting function are either CPAs or those with a clearly differentiating title, there will be a group of non-CPAs who are presently permitted to practice as "public accountants" and whose right to continue to do so during their lifetime must be respected. It is an objective of the Institute that CPAs and their professional societies should develop and maintain friendly cooperative relations with this transitional group, with the purpose of improving educational, technical, and ethical standards, and providing aid in fulfilling the requirements for the CPA certificate.

(Adopted by Council on April 23, 1959.)

Objective:

It is an objective of the Institute that non-CPAs who are permitted to offer bookkeeping and other technical services to the public be encouraged, with help from CPAs, to form a national association to develop appropriate standards and confer on its members an appropriate title clearly differentiating them from accountants or auditors.

(Rejected by Council on April 23, 1959.)

May 1960

Objective:

It is an objective of the Institute that by voluntary agreement the plans, programs, procedures, and activities of the state societies and the Institute be coordinated to the full extent possible, and their respective areas of responsibility be clearly delineated; and, in particular, that the state societies and the Institute adopt a uniform code of ethics and enforcement procedures.

(Adopted by Council on May 3, 1960.)

September 1960

Objective:

It is an objective of the Institute that every eligible CPA, in furtherance of his own development and fulfillment of his professional responsibilities, be encouraged to become a member of a state society and of the AICPA, and that membership in both be required to be concurrent as soon as possible.

(A motion to adopt this objective at the May 1960 meeting of Council failed of passage by a Council vote of 79 opposed to 74 in favor.)

(The Executive Committee reported to Council on September 23, 1960, that it had reconsidered the proposal in the light of the close vote, and recommended that any state society desiring to do so be permitted to enter into a voluntary agreement with the Institute to establish concurrent membership in both organizations as a future requirement for membership in either; and, if Council approved the recommendation, that the Bylaws Committee be instructed to prepare an appropriate amendment to the bylaws to give effect to the recommendation. Following extended discussion, it was moved that the recommendation of the Executive Committee be approved. The motion was seconded, put to a vote, and carried by a vote of 86 in favor and 57 against.)

(Amendments to the Bylaws designed to accomplish this objective failed to pass as a result of a mail ballot of the entire membership dated January 3, 1964.)

April 1961

Objective:

It is an objective of the Institute to provide encouragement to CPAs to continue study and self-improvement throughout their professional lives, by providing formal recognition of advanced study and superior attainment.

April 1961 (Continued)

Implementing Resolution:

BE IT RESOLVED, That Council approve in principle the creation of an Academy, which would provide higher accreditation for those who satisfy the requirements along the general lines recommended by the Committee on Long-Range Objectives in the paper released by it under the title "Higher Accreditation for CPAs" and published in the March 1961 issue of The Journal of Accountancy; and

BE IT FURTHER RESOLVED, That the Executive Committee take such steps as are necessary to formulate and submit to Council recommendations for the establishment of the Academy.

(Adopted by Council on April 18, 1961.)

(At the May 1962 Council meeting a proposal for creation within the Institute of an Academy of Professional Accounting was rejected by a vote of 89 to 61.)

Objective:

It is an objective of the Institute, recognizing that management service activities are a proper function of CPAs, to encourage all CPAs to perform the entire range of management services consistent with their professional competence, ethical standards, and responsibility.

Implementing Resolution:

In furtherance of this objective, the Council requests the Executive Committee to take steps to the following ends:

1. To encourage educational institutions to broaden the curriculum for prospective CPAs to include subjects relating to management services developments affecting the accounting function.

2. To undertake and to encourage research in fundamental areas affecting the practice of management services by the CPA.
3. To provide machinery for referrals among CPAs of engagements requiring specialized knowledge in the field of management services.
4. To clarify professional rules of conduct applicable to the management service practice of CPAs.

(Adopted by Council on April 18, 1961.)

May 1962

Objective:

It is an objective of the Institute:

1. To encourage the description and continuous restating of those areas of knowledge and technical competence required by the CPA in his present and prospective professional practice; and
2. To bring about the clarification of the areas of responsibility of universities, practitioners, and professional societies in the education and training of CPAs.

Implementing Resolution:

In furtherance of this objective, the Council requests the Executive Committee to assign a permanent committee with senior status the responsibility for accomplishment of the above objective.

(Adopted by Council in May 1962.)

Objective:

It is an objective of the Institute:

1. To identify those areas in society where the

May 1962 (Continued)

need for the CPA's attest function exists, and to promulgate such information to its members and the interested public; and

2. To assist its members in equipping themselves to discharge the attest function wherever a useful social purpose is served.

Implementing Resolution:

In furtherance of this objective, the Council requests the Executive Committee to take steps to the following ends:

1. To arrange for the development of a systematic plan whereby, over a period of years, issuers, users, potential issuers and users of economic data, and the interested public, may be informed of the purpose, nature, and value of the CPA's attest function.
2. To develop a plan for informing practicing CPAs of the areas in which the attest function is appropriate, and through the professional development program, the Institute's publications, and such other media as may be available, to provide technical assistance in equipping them to discharge this function.

(Adopted by Council in May 1962.)

Objective:

It is an objective of the Institute to bring about uniform national standards applicable to the requirements for issuance of CPA certificates and recognition of qualified accountants of other countries, freedom of movement in interstate and international accounting practice, and codes of ethics and enforcement procedures.

May 1962 (Continued)

Implementing Resolution:

In furtherance of this objective, the Council requests the Executive Committee to take steps to the following ends:

1. To develop and recommend to Council the revision or adoption of policies as deemed necessary or desirable.
2. To develop and publish comparative statements describing laws, regulations, rules, and practices in the fifty-three jurisdictions, inconsistent with Institute policies.
3. To take steps, in cooperation with state societies and state boards, to implement the adoption of uniform standards by changes in:
 - (a) Institute bylaws, rules, policies, and the form bill
 - (b) Bylaws and rules of state societies
 - (c) State accountancy laws, regulations, and administrative practices.

(Adopted by Council in May 1962.)

REPORT OF THE COMMITTEE ON LONG-RANGE OBJECTIVES

1957

(Not officially presented to Council -- later withdrawn)

To Members of Council of the
American Institute of Accountants

Gentlemen:

This is a new committee set up this year by President Eaton. It has three members: Herman W. Bevis, J. S. Seidman (Chairman), and Robert E. Witschey. The purpose of the committee, stated in the broadest terms, is to focus attention on long-range thinking and planning concerning the profession and the Institute. To put it another way, the committee is charged with recommending objectives that will help the profession and the Institute reach the goals that are deemed desirable of attainment within the next ten years.

One basic question immediately poses itself, the answer to which is needed before many other possible objectives can be considered. This question is made up of two parts, as follows:

- (a) Shall CPAs not in practice remain eligible for membership in the Institute;
- (b) If so, shall there be any limitation on their eligibility for office, Council, or committees.

The committee deliberated on this and collateral questions in a two-day meeting. The committee had the benefit at that meeting of the participation of John L. Carey, executive director of the Institute. It also drew heavily on his time before and after the meeting, as well as on the generous cooperation from the Institute's staff of John Lawler, David H. Lanman, Jr., and Elizabeth Arliss.

The committee's views are here presented. The committee is not unanimous as to part (b) of the question. A statement of personal views is included by two members as to that part. This is followed by a statement of facts, and a listing of pros and cons.

It will be tremendously helpful if the Council, at the April, 1957 meeting, can make a policy determination on both parts of the questions presented. This will enable the committee to go forward with other vital matters that depend on the policy resolution of the one here posed.

Committee Views

(a) The committee is unanimous in the view that CPAs not in practice shall continue to be eligible for membership in the Institute.

(b) Mr. Bevis believes that the Council, the executive committee, the Board of Examiners, the Trial Board, and such other committees dealing with internal government as those on nominations and admissions, should continue to be composed solely of CPAs in practice. Messrs. Seidman and Witschey would give all members equal operating and political opportunity in the Institute.

Statement of J. S. Seidman

The common bond of Institute membership is the CPA certificate. This was dramatically illustrated and emphasized by the recent name change to the American Institute of Certified Public Accountants. With the CPA certificate the pivot, one CPA should have the same membership privileges as another. Restricted membership is divisive. It frustrates interest in membership by those not yet in the Institute. It creates second-class citizenship for those who do come in. Unless the welcome mat is extended without tongue-in-cheek, those with restrictive status are bound to look elsewhere for their haven.

To make eligibility for certain activities in the Institute depend on being "in practice" can raise some embarrassing and difficult problems if the restrictions are taken seriously. Is member John Jones eligible for Council, if he does only public bookkeeping work? Is he engaged in the practice of accounting? How about member Henry Smith, a member of a university faculty? Is he engaged in public practice? Suppose Richard Abbott is elected to Council, and during the year he goes into private work. Does he lose eligibility? With the increasing shift of CPAs from public to private work, and vice versa, in our dynamic economy, isn't there likely to be a parade of ineligibilities created midstream, or restored eligibilities?

Financial considerations should not enter into the decision. Nor should it be cynically approached as a gimmick for increased membership. Rather, the point is to have all eligible CPAs feel equally at home in the Institute with equal standing and prerogatives.

It is said that non-practicing CPAs have not expressed an interest in enlarging their Institute responsibilities. If true, that should allay any fears about removal of the existing barriers.

Another point raised is the numerical superiority of non-practitioner members that could eventuate. If that should ever come to pass, and if decisions should be influenced solely by practice status, what sort of an organization would the Institute be when a minority must dominate? It would be much more forthright to declare the Institute to be the exclusive preserve and proprietary possession of practitioners and limit membership and the name of the Institute to them.

To be sure, there are some activities that are of primary interest to the practicing CPA and not the private CPA, and vice versa. That, however, is no reason to bar any member from any activity - or office.

There are no operating or political handcuffs within the American Bar Association on a lawyer in private work. Nor is there any stifling of opportunity within the American Medical Association to a doctor privately engaged. In our own profession, our colleagues in Canada and England have no such restriction, nor do our own State Societies. What is there so peculiar about the Institute that justifies this class distinction within its own ranks?

It seems to me that the wise course for the long-range strength and solidarity of CPAs and of the Institute, is to give equal rights to all members.

Statement of Herman W. Bevis

One of the essential characteristics of a profession is that its members are organized into an association. Such an organization discharges functions which are vital. One cannot conceive of a true profession which does not maintain an organization to do such things as: raise, maintain, and uphold standards of admission, and of performance after admission; provide for an exchange of technical information and the fruits of research within the profession; inform and educate those outside the profession; and assist in safeguarding the public interest and in encouraging members to accept their social responsibilities.

The Institute has to date been a vital organ in the progress of public accounting toward professional status. Giving equal operating and political scope in the Institute to CPAs who are neither practicing nor teaching could harm the public accountants' status as a profession. I make this statement with all due respect for the non-practicing CPA. The point, developed below, turns not on an assumption that CPAs in practice are "better" in any respect than those not in practice, but rather on the fact that their problems, interests and motivations are different.

I am told that no particular interest has been expressed by non-practicing CPAs in enlarging their Institute responsibilities. Rather, the two strong reasons which have been offered to me (not by my fellow committee members) for giving non-practicing CPAs full voice and vote in the affairs of the Institute originated with practicing members. The arguments are, first, that the numbers of the Institute would be swelled so that the Institute's voice would be the louder when it wished to be heard in a public forum, and second, that the Institute's potential resources would be multiplied many fold in view of the corporate resources behind the CPAs employed by corporations. Those taking this approach point out that there are probably more CPAs outside public practice than in it.

One does not get something for nothing. The Institute would, of course, have to adopt programs for -- and accommodate itself to the point of view of -- any groups whose voice and resources it would borrow. Therein lies my fear. Suppose that, being numerically superior, non-practicing CPAs organized the Institute's Council. Does anyone contend that CPAs as a professional body would not then have lost something?

FACTUAL DATA PREPARED FOR
COMMITTEE ON LONG-RANGE OBJECTIVES

I. ELIGIBILITY OF NON-PRACTICING CPAS FOR MEMBERSHIP

1. What is present policy on membership?

Article I of the by-laws of the Institute states that an objective of the American Institute of Accountants "shall be to unite the accountancy profession in the United States as constituted by the certified public accountants of the several states, territories, possessions, and the District of Columbia."

Later in the same Article another objective is stated: "to encourage cordial relations among certified public accountants practicing in the United States of America and accountants of similar status in the other countries of the world."

Council, at its meeting October 22, 1945, in response to a request from the board of examiners for clarification of the experience requirement, expressed the opinion that the Institute was essentially an organization of certified public accountants (rather than of practicing public accountants). Council, at the same time, and in conformity with its opinion, directed that the board be liberal in interpreting the "experience" requirements of the by-laws.

At its meeting May 12, 1947, Council adopted a "Statement of Policy for Admission to Membership in the American Institute of Accountants" for the guidance of the board of examiners, which said in part: "The American Institute of Accountants is the national organization of certified public accountants and is primarily concerned with professional public accounting. Limitation of membership in the national professional body of certified public accountants is based on the demonstration of fitness to practice public accounting."

The membership approved by an overwhelming majority a change in the name of the Institute to the American Institute of Certified Public Accountants, to become effective June 1, 1957.

2. How did AIA reach present policy?

The constitution of the American Association of Public Accountants, adopted in 1897, provided in Section 2, Article I that "The objects of the Association are the elevation of the profession of a public accountant, and the establishment in one body of the public accountants practicing in the United States..."

In 1916, the American Institute of Accountants was established, and the American Association was merged with it. The Institute provided for two classes of members -- members and associates.

Voting power was vested exclusively in the members. Associates had no vote.

The American Society of Certified Public Accountants was organized in December, 1921. Its constitution stated "The object of this society shall be to protect the certificate of Certified Public Accountant granted by the states and other political subdivisions of the United States." Membership in the Society was restricted to CPAs.

In the mid-20s, the Society amended its by-laws to provide "The objects of this Society shall be (a) to protect and foster the certificate of CPA ... (b) to assist government authorities in regulating the public practice of accounting to the end that it may become a legalized profession; (c) to improve the standards of the accounting profession; and (d) to encourage and promote affiliation with this Society by organizations of CPAs in the several states ..." Membership was restricted to holders of CPA certificates who at that time of admission were members in good standing of a state organization of certified public accountants.

In 1936 the American Society of Certified Public Accountants merged with the American Institute of Accountants, and the by-laws were amended to ease the requirements for admission of CPAs. The two classifications of membership -- Member and Associate -- were continued. The by-laws provided that the following persons could qualify for examination and election as members of the Institute ... upon presenting evidence of preliminary education [high school] satisfactory to the board of examiners: (1) Persons engaged in public practice, or accountancy instruction in schools recognized by the board, in practice or in accountancy instruction for a period of not less than five years ... The board may give credit in its discretion for accountancy work of an outstanding character which ... is clearly equivalent to public practice. (2) After January 1, 1936 no applicant shall be admitted as a member unless he holds a valid and unrevoked CPA certificate ... (emphasis supplied).

Persons could qualify as associates who met the educational requirements, but only two years public practice was required, or in the case of accountancy instruction three years preceding date of application. The other requirements as to examination, CPA certificate, and so forth, applied to this class of members.

A proposal to change the Institute's name to American Institute of Certified Public Accountants immediately after the merger was defeated in a mail ballot of the membership.

In 1946 the Institute abandoned the "associate" class of membership. This change was the result of increasing dissatisfaction on the part of associate members with their "second class" membership, and of the opinion voiced by the executive committee and the Council that the change to a single class of membership would improve the structure of the organization by removing a classification that was at the same time arbitrary and illogical.

In the same year the by-laws were amended to provide that persons could qualify for election as members of the Institute: (a) who possessed a valid and unrevoked CPA certificate; (b) passed an examination satisfactory to the board of examiners; (c) had been in public accounting practice for not less than 2 years, or had equivalent experience satisfactory to the board.

In April, 1941, Council approved a recommendation of the executive committee that the legend "National Organization of Certified Public Accountants" be included on the letterhead of the Institute, to meet the complaint that there was confusion in the public mind as to the composition of the membership of the American Institute of Accountants.

At the annual meeting of the Institute in 1947 a group of members introduced an amendment that the name of the Institute be changed to "American Institute of Certified Public Accountants." This proposal was defeated on the floor of the meeting, one of the arguments against it being that the Institute included in its official pronouncements and on its letterheads the description "National Organization of Certified Public Accountants." At the annual meeting of the Institute in 1955, this amendment was again proposed, on the recommendation of the executive committee and approval of Council, was approved at the annual meeting, but failed of passage by vote of the membership.

In 1956 the membership voted overwhelmingly to change the name to "American Institute of Certified Public Accountants," and this will become effective June 1, 1957.

3. How is present membership constituted?

Following is an occupation classification of the membership of the Institute as of November, 1956, prepared from the most recent Audit Bureau of Circulation report of the Journal of Accountancy:

Partners, Practitioners and Staff of CPA firms	19,886	72.5%
Private Industry	5,601	20.4
Government Employees	911	3.3
Teachers	437	1.7
Unclassified or Miscellaneous	<u>579</u>	<u>2.1</u>
Total	27,414	100.0%

A similar breakdown of figures for the medical profession shows the following classifications:

Doctors in active practice	159,000
Retired or not in practice	9,700
Teaching, research, hospital and government services	<u>51,300</u>
Total	220,000

4. The present schedule of dues

The present structure makes a distinction between principals in practice and employees and non-practitioners, as follows:

By each member who at the beginning of the fiscal year shall have been in possession of a certified public accountant certificate for less than four years, and is not engaged in public accounting practice as a partner or individual practitioner.....\$12.50

By each member who at the beginning of the fiscal year shall have been in possession of a certified public accountant certificate for less than four years and is engaged in public accounting practice as a partner or individual practitioner.....\$20.00

By each member who at the beginning of the fiscal year shall have been in possession of a certified public accountant certificate for four years or more and is not engaged in public accounting practice as a partner or individual practitioner.....\$25.00

By each member who at the beginning of the fiscal year shall have been in possession of a certified public accountant certificate for four years or more and is engaged in public accounting practice as a partner or individual practitioner.....\$40.00

5. How are non-member CPAs constituted?

The following figures are based on ABC figures for non-member CPAs subscribing to the Journal, since the Institute records do not contain such information.

Partners, Practitioners and Staff of CPA firms	4,087	67.6%
Private Industry	1,517	25.1
Government Employees	288	4.8
Teachers	98	1.6
Unclassified or Miscellaneous	<u>54</u>	<u>.9</u>
Total	6,044	100.0%

It must be assumed that non-member CPAs in public practice are more likely to subscribe to the Journal than those not in practice.

II. ELIGIBILITY OF NON-PRACTICING CPAS FOR OFFICE, COUNCIL AND COMMITTEE SERVICE

1. By-Law Restrictions on Committee Service by Non-Practitioners

The present by-laws, as amended January 9, 1956, are explicit in requiring that all members of the Council and Institute officers be members in practice:

"Article VII

"Council and Officers

"Section 1. The governing body of the Institute shall be a Council consisting of:

"(a) Forty-eight members in practice, to be increased by the following method to seventy-two members in practice

"(b) Members in practice, to be elected without regard to the states in which they reside, three of whom shall be elected at each annual meeting commencing in 1947 for a term of three years or until their successors shall have been elected, so that after the election in 1949 there shall be nine of such members on the Council; and

"(c) The following officers of the Institute: a president, four vice presidents (no two vice presidents shall be residents of the same state), and a treasurer, all of whom shall be members in practice and shall be elected at the annual meeting for a term of one year or until their successors have been elected; and"

The trial board of the Institute is composed of present and former members of the Council which in most instances assures that all are members in practice. At the present time a member of the trial board, although he spent a life-time in the public practice of accounting, is not in practice by virtue of his appointment to a government position:

"Article IX

"Trial Board and Committees

"Section 1. There shall be a trial board and sixteen regular standing committees, namely:

Executive	By-Laws
Professional Ethics	Credentials
Admissions	Federal Taxation
Accounting Personnel	Meetings
Accounting Procedure	Nominations
Auditing Procedure	Publication
Arbitration	State Legislation
Budget and Finance	Terminology

"Section 2. (a) The Council shall elect from its present and former members a trial board of twenty-one members to be first created by electing seven members for a term of one year, seven members for a term of two years, and seven members for a term of three years. Thereafter beginning with the second year of the trial board's existence seven new members shall be elected each year to serve for a term of three years. Vacancies shall be filled by the Council for the unexpired term. No member of the committee on professional ethics shall be a member of the trial board. A quorum shall consist of a majority of the members of the trial board."

The executive committee also is composed of members in practice:

"Article IX

"Section 2. (b) The executive committee shall consist of the president, four vice presidents, and the treasurer of the Institute, and seven other members of the Council elected by the Council. Five members of the committee shall constitute a quorum of the executive committee."

The committee on nominations is composed entirely of members in practice:

"Article IX

"Section 2. (d) The committee on nominations shall consist of seven members. Two members of the committee shall be elected by the Council from its membership at the meeting of Council prior to the annual meeting of the Institute or at any adjournment thereof. Officers and other members of the Council whose terms expire within one year shall not be elected to the committee on nominations. The five remaining members of the committee shall be elected by the Institute at the annual meeting and shall be members in practice who are not officers or members of the Council ..."

The by-laws state clearly that membership on the committee on admissions shall be restricted to members in practice:

"Article IX

"Section 2. (e) The committee on admissions shall consist of five members in practice elected by Council for a term of three years ..."

According to the by-laws, as amended January 9, 1956, it is no longer required that members of the committee on professional ethics be members of Council (and consequently in the broad interpretation they need not be members in practice). As a practical matter, however, this year's committee is composed entirely of members in practice and seven of the fifteen are members of Council. An additional safe-guard against non-practicing members being elected to the committee on professional ethics is to be found in the by-law requirement that all members be elected by Council:

"Article IX

"Section 2. (c) The committee on professional ethics shall consist of not less than five members not members of the executive committee, who shall be elected by Council."

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2. Historical Background of Eligibility for Office, Council and Committee Service by Non-Practicing Members

1905 In 1905 when the by-laws were first published service on committees of the American Association of Public Accountants was limited to fellow members. At this time persons not in practice were excluded from membership.

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1916 In this year, for the first time, the by-laws required that Council and officers be members in practice. The executive committee is mentioned for the first time as being composed of Council members (thus, members in practice). And it was stipulated at this time, also, that the committee on professional ethics should be elected from members of Council.

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1946 At the annual meeting in 1946, Council recommended the amendment of the by-laws for a single membership classification. This amendment had the effect of making every member eligible to vote and hold office, rights associate members did not have previously. However, only practicing members continued to be eligible for office, the Council and those committees the by-laws specify should be composed of members in practice.

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1947 In The Nature and Purpose of the Institute, Exhibit B to its mid-year report in 1947, the executive committee reaffirmed the conditions upon which eligibility for membership and committee service should be based:

"Consistent with emphasis on the profession, the by-laws restrict the holding of office in the Institute, and membership on the Council, the executive committee, and the committee on ethics and nominations to members in practice... Similarly, with well established precedent, but without the force of by-laws, membership on other committees is largely limited to members in practice, although exceptions are made when it appears in the interest of the profession to do so."

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1956 At the spring 1956 meeting of Council it was recommended that every member of the Institute be regarded as eligible for election to the Council and for membership on any committee of the Institute. Council referred the recommendation to the committee on by-laws to prepare amendments. When brought before the fall meeting of Council in 1956 the original motion was tabled.

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3. Results of English and Canadian Experience

In answer to a cablegram sent to Mr. MacIver, Secretary of the Institute of Chartered Accountants in England and Wales, and in a phone conversation with Mr. Howarth of the Canadian Institute, the following information was obtained:

- (a) All Chartered Accountants must be members of the Institute in order to qualify for the CA degree. However, if after so qualifying they leave public practice they are allowed to maintain membership in the Institute.

The same is also true in Canada.

- (b) In the Institute of CAs in England and Wales 40% of the membership is in industry.

In Canada the proportion is 50%, generally running to as high as 60% of total membership in large urban areas.

- (c) In England non-practitioners are allowed to serve as officers, as members of Council and on committees.

In Canada the same is true (the president of the Canadian Institute in 1953 was from industry).

- (d) There are no quota limitations constitutionally although in practice the Council is composed predominantly of members in practice.

In Canada the same is true.

- (e) Committee assignments are open to all members both in England and Canada.

- (f) In England and in Canada there are organizations similar to the NACA, Controllers Institute to which non-practicing members do belong.

- (g) In England and Canada experience has been satisfactory and no changes are contemplated.

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PROS AND CONS
ON
LONG-RANGE POLICY QUESTIONS

The Questions

- (a) Shall CPAs not in practice remain eligible for membership in the Institute;
- (b) If so, shall there be any limitation on their eligibility for office, Council, or committees?

(a)(1) CPAs not in practice should be ineligible for AIA membership

(1) One of the basic objectives of the Institute is to serve as an organization of professional people. A vocation may be said to be a profession when these conditions are present: (1) a body of specialized knowledge; (2) a recognized educational process for acquiring such specialized knowledge; (3) a standard for gaining admission; (4) a standard of conduct governing relationships with clients, colleagues and the public; (5) formal recognition of status; (6) an acceptance of the social responsibility inherent in an occupation endowed with public interest; and (7) an organization devoted to the advancement of the social obligations, as distinct from the economic interests, of the group.

Thus, important professional criteria have to do with current activities of members of the profession; these are in addition to those dealing with training and admission. Put another way, professional status turns upon services being rendered, rather than upon titles.

(2) Members of an organization must pursue similar goals and possess common interests if that organization is to have enough strength to survive the internal stresses and strains that occasionally beset any group. CPAs in public practice do have such bonds; but the certificate is the only thing that all certified public accountants have in common -- the uniform examination is often their only shared experience.

(3) If the Institute is to attract and enroll more of the CPAs employed by private industry, it would seem necessary to develop programs for them. No specifics in this direction have yet been brought forward. Any suggestions would presumably involve radical departures in Institute policy since most, if not all, of the Institute's current activities are designed to assist members in public practice.

(4) Nor is there any widespread indication that the certified public accountants in private industry are eager to become full members of the American Institute and to have it transformed into an all-embracing organization. Indeed, it would be difficult to demonstrate that these privately-employed CPAs lack organizations devoted to advancing their special interests in view of the existence of such healthy groups as the Controllers Institute, the Institute of Internal Auditors, and the National Association of Cost Accountants.

(5) If the Institute wishes to embark upon a program to increase its membership, it should first concentrate upon the large number of CPAs in practice who are not members. As long as these people are outside the national professional organization, the Institute cannot be satisfied that even its number one membership mission has been accomplished.

(6) As the national spokesman for CPAs in public practice, the Institute has gained considerable influence because its recommendations have been drafted by professional men whose objectivity and independence are generally recognized.

That reputation explains in part the reception accorded to the Institute's tax proposals by Congress and the Treasury Department. It explains, too, why the Institute's representatives always obtain a cordial hearing from the SEC and other agencies of the federal government. It is not unreasonable to suggest, therefore, that the Institute's effectiveness would be seriously impaired if the organization was no longer dominated by members in public practice.

(7) The point involving objectivity and independence is also pertinent when comparing our problem with that of law or medicine. When persons in the latter fields move from public to private practice, little change occurs in their manner of practice. When an independent public accountant changes to private work, he has lost his most distinguishing characteristic.

(8) If the Institute is to seek to represent all CPAs the decision to adopt such a course will be a reversal of long-standing policy. The Institute and predecessor organizations have changed membership requirements as conditions have changed; each change has consistently pointed the Institute in the direction of the public practitioner's interest. At first, emphasis was placed upon long experience as a requirement for membership; then, as possession of the CPA certificate became widespread for those in public practice, the certificate became the principal membership qualification. At the last stage, when CPAs in numbers commenced to go out of practice, the by-laws of the Institute were made to provide that members in practice be the controlling group.

(a)(2) CPAs not in practice should remain eligible for
AIA membership

(1) The seven characteristics of a profession set forth at the beginning of this summary apply to a group and not to an individual. No group has all of these characteristics at any one period of time; nor does any group ever possess them to the ideal degree. If a group possesses these qualities in reasonable measure, it is justified in claiming to be a profession.

On this basis, the entire group of persons who possess the CPA certificate has a legitimate claim to the professional designation. But an individual is admitted to the group, not because he fulfills all of the seven requirements, but because he has satisfied the standards of competence, responsibility and conduct established by the group.

The standards established by the accounting profession are largely reflected in the state laws governing the issuance of the CPA certificate. This suggests that anyone who acquires the certificate, having met the admission standards of the accounting profession, ought to be regarded as a full-fledged member of the profession -- and of the Institute.

(2) The contention that a man's work must affect the public interest to justify his claim to professional status is not sound. It may be true that much of the professional recognition granted to CPAs is derived from the accounting services that clearly affect the public interest -- the expression of opinion, for example, on financial statements to be used by third parties. It may be equally true that the professional status of CPAs would be placed in serious jeopardy if only a small number rendered such services. But it hardly follows from these assertions that all of the work performed by the profession must have a public interest content -- or even that all of its members must perform some work of this type.

(3) No change in status accompanies a transfer from public to private practice in the older professions like medicine and law, each of which has well-defined standards of qualifications. In these groups it is generally assumed that a member retains his professional status even when he leaves practice because he is still qualified to re-enter practice whenever he chooses.

(4) There is a genuine public interest in emphasizing the distinction between accountants who have demonstrated competence and responsibility (CPAs) and those who have not. Serving one employer on a full-time basis does not change these basic characteristics.

(5) Although there are admittedly some differences in interests and aims between CPAs in public practice and those in private employment, the certificate alone provides a strong rallying point.

The unifying force of the certificate is clearly demonstrated by the fact that 7,000 members of the Institute are not engaged in public practice -- and yet recognize the value of membership. Even if the Institute proclaims that it is primarily concerned with the practitioner, these privately employed accountants realize that much of its work is of benefit to them.

If a member is doing accounting work in any capacity, he is bound to profit by the Institute's activities; and even if he is not engaged in accounting at all, he will benefit from its efforts to protect the integrity of the CPA certificate.

(6) Because of the unifying force of the certificate (and of the standards required for its acquisition), it is unlikely that any sharp cleavage between CPAs in public practice and private employment would ever occur.

On the contrary, there is some reason to believe that the Institute would be strengthened if in due course it frankly recognized that interest in activities differ among its membership and set out to create sections to deal with the subject matter of particular concern to each group. The American Bar Association has been organized in this way for some time. It is the belief of many observers that, in terms of adding to the vigor and usefulness of the ABA, it has accomplished much more by this structure than would ever have been possible if each of its sections had been operating as separate organizations or in mass.

(7) The historical trend of the Institute has been more and more to rely upon the certificate as the common denominator rather than upon the nature of the work performed by the holder of the certificate. The latest evidence of this is the change in the name of the Institute.

(8) The Institute should be able to speak for all CPAs on matters which affect their interest or that of the CPA designation. The greater the proportion of all CPAs who are members of the Institute, the more effectively can this be done.

(b)(1) CPAs not in practice should be ineligible for
office, Council and certain committees

(1) CPAs not in practice might be said to have become out of place among the membership of the Institute, since professional stature and recognition for independence and objectivity derive from CPAs in practice. However, because they are eligible to re-enter practice at their own election, it seems more appropriate that membership in the Institute be retained by CPAs not in practice, but that they be transferred from, shall we say, "active" to "inactive" status. Office, Council and certain "professional" committees should therefore be denied them.

(2) The problems, interests, and motivations of CPAs in private practice are different from CPAs in practice. For the former to be in a position to dominate the Institute would undermine the status of the Institute and CPAs in practice as a professional body.

(3) The effectiveness of the Institute in Congress, before governmental agencies, or with the public would be diminished if doubt as to independence and objectivity were created. This would result if CPAs not in practice had unrestricted sway in Institute matters.

(b)(2) All members of the Institute should have the same rights

(1) If the non-practicing member is accepted in membership, it is illogical to deny him full membership. At present he occupies a secondary status; he is denied (by custom or by provision of the by-laws) a position on a number of committees; he is ineligible for election to the Council. This discrimination may not only discourage non-practitioners from becoming members of the Institute and thus reduce the strength of the organization; it may also in time inspire the formation of another group of CPAs, and thus further divide the accounting profession.

(2) Restricted membership creates second-class membership. This is uninviting to the restricted group both in and out of membership. The status of associate membership was eliminated by the Institute in 1946 for these very reasons.

(3) What constitutes being in practice is almost an impossible concept to administer. Furthermore, shifts in status from in practice to not in practice can, midstream, destroy original eligibility for office, Council, or committee.

(4) The bar and the medical profession do not confine the scope of a non-practitioner in their national organization. The same is true of accounting in Canada, England, and in the State Societies of the United States.

(5) The nature and quality of the product is as much a determinant in the extent of its acceptability by the public or governmental bodies as the source from which it is derived. There is nothing thus far in the working of the Institute to establish that, in respect to Institute matters or recommendations, CPAs in private practice do not think objectively or independently.

REPORT OF COMMITTEE ON LONG-RANGE OBJECTIVES

March 18, 1958

To the Council of the American Institute
of Certified Public Accountants

Gentlemen:

In the summer of 1956 the executive committee gave consideration to broad questions related to the long-range objectives of the accounting profession and the Institute. As a consequence of this consideration, a committee on long-range objectives was appointed by the president in the fall of 1956 to frame the basic questions involved in consideration of the ultimate goals of the Institute, and to make specific recommendations for the consideration of the Council.

Since its appointment, the committee has held four two-day meetings. A tentative exposure of proposals under consideration by the committee was made to the Council at its meeting in the spring of 1957. In the summer of 1957 the committee wrote to all members of Council, including state society presidents, putting forward a number of questions. An excellent response was received and all the replies were analyzed. In addition, the committee exposed some of the same problems at a session of the annual meeting held in New Orleans last October. The committee is now prepared to offer one specific proposal for approval of the Council.

In presenting this proposal, the committee wishes the Council to know that it was not adopted without extended study and debate. The members of the committee were not originally in agreement on this question. We reviewed the positions of other professions in the United States; the experience of professional accounting organizations in the United Kingdom, Canada, and elsewhere; the historical evolution of the Institute itself; the present composition of the membership in comparison with earlier years, and other data. Much documentation was made available to the committee. Gradually, after hours of discussion at each of its four meetings, opinions began to find an area of agreement, and the committee is now unanimous in presenting the following recommendation.

We recommend adoption of the following, as one of the objectives of the Institute.

Objective

It is an objective of the Institute to serve as the national organization of certified public accountants in and out of public practice, and to develop and maintain the form of organization best adapted to the needs of all its members.

Supporting Propositions

It is in the "public practice" that accountancy acquires some of the essential characteristics of a profession. It is the "public practice" that has provided the primary motivation to the states to exercise their licensing power and provide for the CPA certificate.

However, a person who has qualified for the public practice of accountancy does not cease to be a member of the profession merely because he does not exercise his right to offer services to the public generally.

CPAs in practice require a national professional society which can deal effectively with the special problems of the practitioner -- such as ethics, legislation affecting practice, continuing education of practitioners, standards of auditing and reporting, and similar matters. The Institute must continue to fulfil these needs.

However, both CPAs in practice and CPAs out of practice require a national professional society which can deal effectively with the areas of common concern -- such as maintaining the prestige of the CPA certificate, accounting education, technical research, exchange of information on accounting in management, and similar matters. CPAs in practice and out of practice have sufficient community of interests to warrant their inclusion in one national professional society -- the American Institute of Certified Public Accountants. Each CPA becomes stronger and adds strength to the other CPAs by association with one another.

Implementation

If the Council adopts this objective, consideration should be given to ways of implementing it. It is not the duty of the committee on long-range objectives to deal with methods of implementation. However, in the course of its discussion and exposure of the recommended objective and related propositions, the committee has considered some ideas dealing with implementation.

In the first place, let it be clear that the committee does not believe that there need be any change in the present government or management of the Institute in order to make membership attractive to CPAs not in practice. Policies and activities of principal concern to practicing CPAs should continue to be controlled by practicing CPAs. However, adoption of the objective as stated would naturally suggest a consideration of ways in which the Institute might be of greater service to members not in practice, and might give them greater opportunity to participate in its affairs. Consideration might be given to the possibility of their serving on committees not directly

involved in practice problems, of their participating in programs of annual meetings and other meetings, of their writing more frequently for Institute publications, and so on. Perhaps existing differentials in dues and admission requirements should be reviewed.

The proposal with the greatest appeal to this committee is the creation of study groups through which members with common interests could get together for the purpose of mutual education and expression of their views. For example, there could be study groups geared to the work of CPAs not in practice, such as accounting education, government accounting, industrial accounting. Also, for CPAs in practice, there could be study groups for practitioners particularly interested in taxation, or in management services. Study groups could also be formed according to types of clients served by a practitioner, like local practice or public corporations. Another study group could exist for staff accountants.

These groups would be purely educational and not political. That is why they are called "groups" and not "sections." There would be no alteration in the present form of organization and government of the Institute. The study groups would function as an extension of the related technical committees of the Institute. For example, the tax study group would be managed by the regularly appointed committee on federal taxation. The study group on industrial accounting might be managed by a new committee on industrial accounting.

No member would be required to join any study group or be barred from joining any or all. The present solidarity of the Institute as a whole, free of divisive elements, would be fully preserved.

The committee believes that the Institute could, through these study groups, create an added service which would give greater opportunity for all members to derive increased tangible benefits from the Institute.

In order to provide a clearer understanding of this committee's conception of the study group we attach a more complete description to this report. We recommend to Council:

- (1) It adopt the statement of objective here previously set forth.
- (2) It refer the implementation of that objective to a committee to be appointed by the president.
- (3) It indicate its agreement in principle with the study group plan here briefly described, and set forth more completely in the accompanying memorandum.

Respectfully submitted,
COMMITTEE ON LONG-RANGE OBJECTIVES

J. S. Seidman, Chairman
Herman W. Bevis
Robert E. Witschey

Organization of Study Groups

(Addendum to Report of Committee on Long-Range Objectives)

Background

When a national organization becomes so large that the vast majority of its members have no personal contact with other members, or with its officers or headquarters organization, members begin to lose their sense of identity with the organization. They begin to refer to it as "you" instead of "we."

Members may continue to pay their dues for services they receive, or for the prestige membership carries, but their sense of active participation is likely to wane.

This is already happening to the American Institute of Certified Public Accountants, and the problem will grow more acute as the membership grows to forty or fifty thousand.

The fact that the state societies are independent of the Institute, and obviously wish to remain so, makes the problem more difficult than that of national organizations which have state, county or city subdivisions. In the latter type of organization all local meetings are conducted in the name of the national organization, and with its aid and sponsorship.

Institute officers and members of the staff in recent years have travelled extensively to seek out groups of members in the smaller towns and cities, but this is an expensive procedure in terms of money, time, and energy, and with the best of efforts we still can only claim to have reached a few thousand members face to face in a year.

Direct personal participation in Institute affairs is now largely confined to some 1,500 members who are members of the Council or committees of the Institute. These actually are the core of the attendance at the annual meeting. To this might be added the generous estimate of 1,000 members who attend the annual meeting without occupying official positions, and perhaps another 1,500 who attend regional meetings under the joint sponsorship of the Institute and the state societies in a given year. If officers, Council members and staff at various meetings speak to another 2,000 or 3,000 members in a year, we have an optimistic estimate of 7,000 out of 31,000 who in a year may come face to face with someone who personifies the Institute.

A plan, which will enable members to participate actively in Institute activities, to voice their opinions, and advance their mutual education, may lie in the creation of "study groups."

The Institute has another basic problem growing out of the diversity of interests of CPAs. Its membership is properly made up of both practicing and non-practicing CPAs. Among the practicing CPAs are partners, sole practitioners, and staff accountants. Among the non-practicing CPAs are those in education, government, and industry. The relative percentage to the total of these classifications is as follows:

Partners and principals (practitioners)	50.3%
CPAs in practice as staff accountants in public accounting	21.7%
Corporate executives	20.4%
CPAs in government	3.5%
Teachers	1.7%
Military	0.1%
Unclassified	2.3%

The Institute can be a medium for providing increased tangible benefits to members in these respective classifications by affording them an opportunity to come together and discuss their common interests.

Nature and Activity of Study Groups

Study groups can be organized along the following lines:

1. The existing government of the Institute would remain unchanged. The Council would continue to exercise all powers requisite for the purposes of the Institute. The executive committee would remain unchanged. The ethics committee, trial board, and nominating committee would continue to be "members in practice." The committees on accounting procedure, auditing procedure, and federal taxation, as well as other existing committees, could continue to function as they now do. No study group would be permitted to publish any pronouncement or take any public position on a technical question, but it would submit its views to the appropriate "senior technical committee" or to the Council.
2. Study groups would be set up, defined in the by-laws as exclusively for the purposes of (a) conducting meetings of members with common interests; and (b) functioning under and in extension of the related technical committee.

3. In the first instance, study groups would be set up to deal respectively with accounting education, government accounting, industrial accounting, taxation, management service, local practice, public corporations, staff accountants.
4. On petition of, say, fifty members, additional study groups might be created if the subject-matter they proposed to deal with was considered by the Council to be of sufficient interest to a large enough number of members to warrant the organization of such a study group.
5. Study group activities could be supported in whole or in part by fees payable by their members, as Council may determine. Council should fix a maximum fee in order that participation may be open to a large segment of the membership. Study group fees would be billed and collected by the Institute simultaneously with the billing and collection of regular annual dues of the Institute.
6. Only members of the Institute would be eligible for membership in the study groups. A member might join as many study groups as he pleased or none. Admission to study groups would be automatic on application and payment of fees, if any, for the current year. In other words, no study group should be able to exclude any member of the Institute from participating in its activities.
7. All staff assistants required by the study groups should be provided by the Institute and not be separate employees of the study group. A "director of study groups" would be responsible for assisting study groups in the organization and conduct of their meetings, and other administrative problems.
8. Papers or discussions recorded at meetings of study groups which might be of interest to wider audiences would be made available to the Journal of Accountancy. Other material likely to be of interest mainly to members of the study group, could be distributed only within the group. No study group would be permitted to publish material for sale or distribution outside its own membership.
9. The chairman of the Institute technical committee concerned with the subject matter of interest to the group would be ex officio the chairman of the study group. (This might lead to the creation of some new committees, such as a committee on industrial accounting.) The members of the technical committee would be ex officio, and under the committee chairman, the "directors" of the study group. The chairman of the study group might

appoint particular members of the group to lead in study, research, organization of meetings, or other purposes of the group, but in all cases this would be purely an intra-group activity. Only the related and governing technical committee could make any pronouncements, or make recommendations to Council, and then only to the extent now permitted to the technical committee.

10. Study group meetings could be held at the time of the annual meeting of the Institute (probably taking the place of many of the technical sessions that are held under existing procedure, although there would still be some general sessions for the entire membership. As it is, the general sessions are devoted more and more to broad subjects of widest interest, and the opportunities for discussion of specific technical questions are less and less). More important, study group meetings could take place in other parts of the country at other times in the year. The study groups could plan their meetings whenever it was most convenient to their members, and could shift their meeting places much as the national meeting places are shifted. Each study group would devote itself to its own area of subject-matter and could attract attendance from all over the country. Study group meetings would be arranged so as not to interfere with any state society activity. Joint meetings with state societies would be possible.

There would be no change in the services which the Institute now renders the membership as a whole. For example, taxation would continue to be dealt with at annual meetings and in The Journal of Accountancy, and the tax committee would function as it now does. But the Tax Study Group would serve as an educational forum for members who wanted to go into the subject more deeply than any facility the Institute now provides will permit.

In short, study groups would provide an opportunity for thousands of members to meet together in circumstances of their own planning for discussion of subjects of their own choice, and of common interest. The study groups would thus multiply the opportunities for self-improvement through exchange of information and ideas, personal participation in Institute work, and personal expression on Institute policies and activities.

If they chose to do so, members of study groups might discuss, and make recommendations to the appropriate committees, not only on technical questions but on such policy matters as ethical standards in the field with which the group was concerned; possible accreditation of specialists in the field;

public relations problems, and so on. Thus the study group might serve not only as a forum for self-education through exchange of ideas, but also as a source of creative thinking by the members to guide the policy-forming agencies of the Institute.

Study groups would provide values to membership in two directions. They would greatly stimulate the interest of practicing and non-practicing certified public accountants in membership in the Institute and preservation of membership. In turn, they would enable the Institute to derive much greater benefit from the knowledge and experience of the members, and maintain closer contact with many more members than at present.

REPORT OF COMMITTEE ON LONG-RANGE OBJECTIVES

Comments and Recommendation Regarding Relationship with Other Accounting Organizations

October 6, 1958

It seems a natural - perhaps inevitable - development of the future that groups of accountants will be joined in co-operative endeavors. There are of course many such groups, other than CPAs, who are participating in and important to the discharge of the accounting function. (By "the accounting function" is meant the measurement and communication of economic data, mostly financial in character, for both internal and external uses vis-a-vis any particular organization or part of an organization.)

Besides CPAs, other groups participating in the accounting function would include educators, controllers, and private and governmental accountants, and their formal organizations would include the Controllers Institute, American Accounting Association, Federal Government Accountants Association, National Association of Accountants, Institute of Internal Auditors, etc.

It is self-evident that there are many areas of interest which are similar, if not actually common, among two or more of these organizations. Many examples would come to mind, including such subjects as accounting and auditing research, formal education and continuing education, recruitment, and standards of financial reporting.

Cooperation among accounting organizations should detract from neither the dignity nor the prestige of the individual participants. On the contrary, it could not only result in enhancing the position of accounting and accountants in general, but afford an opportunity for even higher prestige to be earned by that group which contributed the most to the movement.

The Institute can look back with pride upon its past contributions to the development of accounting thought and techniques - not only in fields peculiar to the public practice but in the entire accounting area. (It is not unique in this respect, however, for the other organizations have made substantial contributions, also.) Looking to the future, one way in which accounting leadership can be demonstrated is by fostering a recognition by all accounting groups of their common interests and by pointing the way to a solution of their common problems. It is hoped that the Institute can and will provide that leadership.

With that hope, and based upon the line of thinking behind it, the Committee offers the following objective for consideration and adoption by the Council:

It is an objective of the Institute to encourage co-operation and consultation among national organizations of accountants to the end that the entire accounting function may make its greatest contribution to the public welfare.

If the foregoing objective should be endorsed, then the Committee would recommend the following enabling resolution for adoption:

RESOLVED that the matter of developing a specific program for carrying out the objective of encouraging cooperation and consultation among national organizations of accountants be referred to the Executive Committee with power to proceed.

COMMITTEE ON LONG-RANGE OBJECTIVES

J. S. Seidman, Chairman
H. W. Bevis
R. L. Witschey

Report of the Committee on Long-Range Objectives

March 31, 1959

To Members of Council of the American
Institute of Certified Public Accountants

Gentlemen:

The committee on long-range objectives has given careful consideration to a problem which has come before Council on several occasions.

The problem has to do with the clarification of the title, role, and relationship of certified and non-certified accountants in public practice. Accountants in government, education, or private employ are not involved.

Our study has been focused on four major aspects of the problem:

(1) The confusion that exists because of the similarity of professional titles assumed by practitioners who perform quite different functions.

(2) Types of services that may and may not be regulated.

(3) Encouraging standards and status for the non-CPA.

(4) The welfare of a transitional group of "public accountants."

This committee has recommendations to make to Council, but these recommendations rest upon an understanding of the problem itself. A review therefore seems desirable.

Council will also find helpful the following articles by members of the long-range group that appeared in The Journal of Accountancy:

Accounting Function and Economic Progress
by Herman W. Bevis (August 1958)

Place of the CPA in Contemporary Society
by John L. Carey (September 1958)

Accounting Function for Small Business
by Robert E. Witschey (December 1958)

What is the Future of the Accounting Profession?
by J. S. Seidman (March 1959)

DISCUSSION

1. Confusion of Title

The title "certified public accountant" was adopted by every state in the union as a means of enabling the public to identify those people who have successfully passed a rigid examination and who have met certain prescribed standards of competence and responsibility for the public practice of accounting.

Unfortunately, this identification has become considerably blurred in the public mind because many states still permit a non-certified public accountant to use titles so similar to CPA that the public has difficulty distinguishing between the two. This has tended to injure the very public interest which CPA legislation was passed to protect.

For example, to the general public and even to many businessmen, the terms "public accountant" and "certified public accountant" sound and look very much alike. The word "accounting" or "auditor" has come to have a meaning in the public mind that implies a level of expertness akin to the CPA. Other descriptions are used by non-CPAs with similar implication.

Even the names of the organizations representing non-CPAs add to the confusion. For example, there is the National Society of Public Accountants, with 8,000 members drawn from a total of some 26,000 public accountants. It would not be surprising if segments of the public not close to the accounting scene had some difficulty in differentiating that organization from the American Institute of Certified Public Accountants, with 33,533 members drawn from a total of some 60,000 CPAs in the United States.

The confusion between "public accountant" and "certified public accountant" is occasionally found even in Congress and in federal government agencies. On many occasions the government finds it desirable to prescribe independent audits for companies regulated by the government, or for companies who are borrowing from a government agency. The public interest is clearly best safeguarded when the audit is made by CPAs alone. And yet, out of unawareness or misunderstanding of the differences between CPAs and non-CPAs, or perhaps to avoid what appears to be a jurisdictional dispute, the government will at times call merely for audits by "public accountants."

It should be made quite clear that the public needs the services of the non-CPA. But it is equally clear that the public needs some means of enabling it to understand the differences between the CPA with his identified competence and responsibility, and the non-CPA who has no such identification.

In the medical profession differences of function, responsibility, and professional certification are clearly made by differences in titles. The words "nurse," "pharmacist," "dentist," "doctor," "professor," bring to mind for all of us distinctly different categories within the medical function. We believe that a similar approach within the accounting function is in the public interest. And what is to the best interests of the public is obviously best for the practitioners.

We recognize, of course, that semantics alone is not a complete solution. In the last analysis, quality of service is what counts. However, titles that are clearly different can enable the public to identify practitioners from whom different levels and quality of service are to be expected.

Our study has therefore led us to confirm the judgment taken by Council in 1956 -- that the only real solution to the problem, and one to which the field of accountancy must inevitably come -- is that only certified public accountants be permitted to hold themselves out as offering services to the public under a title which uses the words "accountant" or "auditor," or implies an expert knowledge of accounting or auditing.

2. Services that May be Regulated

The services that public practitioners render to the business community are very wide in range and scope. Not all require the professional qualifications of the CPA. For example, bookkeeping and similar technical services, though a part of the accounting function, are also within the competence of non-CPAs.

Similarly, CPAs often take on assignments in bookkeeping and similar technical work. Indeed, some of these CPAs feel that they should be given exclusive jurisdiction by the state over such services. Many public accountants agree with this, provided that the circle is broadened to include public accountants, with accompanying provisions for licensing.

We believe, on the contrary, that any attempt to obtain exclusive jurisdiction over such services would be futile at this time, whether or not desirable. Indeed, we are advised that there are insuperable legal impediments to any such goal. Up to now, the court decisions bearing on the subject indicate that bookkeeping and similar technical services do not involve the public welfare to an extent sufficient to warrant the exercise of the police power.

In other words, the fact that many CPAs do bookkeeping and similar technical work does not mean that those services become professional simply because they are rendered by persons with professional qualifications. To be sure, CPAs bring

professional status and competence, even to nonprofessional tasks. But this does not mean that everyone who is to be permitted to perform such tasks must qualify as a member of the profession. Lawyers do things that other persons are permitted to do. They may, for example, act as real estate brokers. But this does not mean that everyone who acts as a real estate broker must be a lawyer.

The tax field furnishes another example. Those who would restrict the performance of tax services overlook the fact that tax work is largely under the jurisdiction of the taxing authority. The Treasury Department is empowered to determine who may practice before it. State laws cannot override that.

It is clear from a recent pronouncement that the Treasury has no desire to restrict to any one profession or group the preparation of tax returns, or even certain preliminary phases of representation of taxpayers. The Treasury takes the view that the federal tax laws are best administered, and the revenues collected at lowest cost, if all people who can be helpful to taxpayers are encouraged to assist in the preparation of returns. It is estimated that there are about 300,000 persons, many on a part-time basis, engaged in this type of activity -- far more than all the CPAs and public accountants combined.

This committee feels, therefore, that it is not in the public interest to restrict by law the rendering of book-keeping and similar technical services to any particular group of practitioners.

On the other hand, the public welfare is so clearly involved in certification of financial statements as to justify and sustain legislation that will ultimately permit only CPAs to certify the statements.

Twenty-six states have already adopted such laws. But in other states, self-designated "public accountants" may conduct audits and certify financial statements without identified competence to do so. There are no controls whatever over their technical or ethical standards. This, we believe, is not in the best interest of the public.

We believe that the public interest requires, not only in 26 states but throughout the nation, that the right of certification of financial statements be limited to those practitioners who are themselves certified to have the proper professional accounting and auditing competence and responsibility.

Council reached the same conclusion in 1956 and our study confirms the judgment of Council.

3. Providing Standards and Status for the Non-CPA

Obviously not all of the work within the competence of the certified public accountant can or should be fenced in by law as the exclusive domain of the CPA. For one thing, it is unlikely that there will ever be enough CPAs to satisfy the requirements for bookkeeping and similar technical services of the millions of small businesses in the United States.

Bookkeeping services constitute an important part of the accounting function. Preparation of basic records has a direct affect upon the soundness of the financial statements which are drawn from them, and the facility with which they can be audited.

Appropriate technical and ethical standards for bookkeeping and similar services are highly desirable, in the interest of both clients and practitioners. We believe that certified public accountants should do all they can to help bring such standards about. In doing so the status of CPAs themselves will be elevated by giving added emphasis to the higher level of professional work CPAs do.

At the same time, non-certified persons performing bookkeeping and similar technical services have an understandable desire to achieve and protect status and recognition. It is natural that the more competent among them seek, through identification, ethical discipline, and standards, to distinguish themselves from those whom they regard as less qualified.

We believe CPAs should take a sympathetic interest in efforts of practitioners at these levels to identify themselves. If every phase of the public practice of accounting is organized and disciplined, public respect for the whole will be enhanced.

It would be a logical development that in time CPAs would refer work to this group, in the same manner as is now done in other professions.

We therefore recommend that non-CPAs who are permitted to offer to the public, bookkeeping and similar technical services should be encouraged to form a national association to develop appropriate standards and confer on its members an appropriate title clearly differentiating them from accountants or auditors.

4. Cooperating with a Transitional Group of Public Accountants

We envision the time when all those offering to the public services within the accounting function will be confined to two groups. One will be the CPAs. They alone will be able to make use of the title "accountant" or "auditor." They alone

will be able to certify financial statements. The second group will be non-CPAs, with an appropriate title clearly differentiating them from accountants or auditors, and conferred upon them by a national association of their own based on appropriate standards.

In the process of bringing this about, there must inevitably be a third group which we refer to as "transitional." They come from the ranks of non-CPAs, who are now permitted to practice as public accountants and to call themselves such. They also are now subject to no restriction as to the scope of their accounting work. We understand that, as a matter of constitutional right, they must be permitted to continue with that title and scope for life. In some states they are now licensed as "grandfathers." It is the Institute policy to encourage all states to follow the same course.

As long as this transitional group of public accountants exists, we regard it appropriate, and recommend, that CPAs and their professional societies develop and maintain friendly cooperative relations with the group, with the purpose of improving educational, technical, and ethical standards, and providing aid in fulfilling the requirements for the CPA certificate.

Steps Already Taken by the Institute

The Institute, through Council, has already adopted certain policies intended to clarify the role of the certified public accountant in relation to non-CPAs.

In September, 1956, Council adopted the following nine-point legislative policy:

"1. The public welfare, which is affected by the activities of certified public accountants and of persons calling themselves public accountants or using similar designations, justifies the enactment of licensing laws which establish measures of control and standards of competence for professional accountants.

"2. Ultimately all professional accounting work should be performed by certified public accountants, who have satisfied educational and experience requirements and have demonstrated competence by passage of examinations. Ultimately all other persons should be prohibited from using the term public accountant or any other term which may be taken to mean that the person so designating himself is competent to practice accountancy at a professional level.

"3. The attainment of the ultimate objective of limiting the professional practice of accountancy to certified public accountants in terms of timing and of the manner of accomplishment must be decided by each state in the light of existing circumstances and without pressure from outside the state for immediate action.

"4. Constitutional provisions require that persons in practice as public accountants as principals when a licensing law is enacted must not be deprived of their means of livelihood. Such persons must therefore be permitted to register, and in so doing should become subject to control and to provisions for revocation of their licenses for unprofessional conduct.

"5. After the initial licensing of public accountants no further registration should be permitted except for those who acquire the CPA certificates by examination, since the public would be confused by the perpetual licensing of two classes of professional accountants under similar titles but with different standards.

"6. In the states and territories which have adopted a licensing law, reopening the registration of public accountants would be contrary to the public welfare, since it would attribute professional competence to persons who had not demonstrated such competence.

"7. Only certified public accountants or public accountants subject to control under licensing provisions should be permitted to sign financial statements with any wording indicating that they have expert knowledge of accounting or auditing.

"8. No one shall be prevented from doing accounting work for more than one employer, provided he does not hold himself out as a certified public accountant or public accountant, or does not sign financial statements in a manner which adds to their credibility.

"9. Free passage of certified public accountants and other licensed public accountants across state lines in response to the needs of their clients should not be impeded by legislation."

In April, 1957, Council adopted as its own the following consensus of the executive committee:

"The executive committee has also considered what relationship, if any, the Institute should maintain with organized groups of non-certified accountants in view of the fact that the National

Society of Public Accountants is supporting legislation which is contrary to the expressed policies of the Institute. It is the sense of the executive committee that the Institute should help public accountants, licensed under laws which the Institute can approve, achieve organization, discipline, and responsibility by complete cooperation with such an organization, including aid to the members in fulfilling the requirements for the CPA certificate."

RECOMMENDATIONS

After studying all the considerations and the steps already taken, this committee now makes two recommendations. Our recommendations go beyond what Council has already adopted in the following essential respects: (1) encouraging a technician class to develop identification, standards, and status through voluntary organization; (2) establishing friendly relations, not only with public accountants licensed under laws that the Institute can approve, but also with other public accountants in the transitional group, to the end that all public accountants in the group may have the opportunity of improving educational, technical, and ethical standards, and aid in fulfilling the requirements for the CPA certificate.

The relationship that Council envisions of certified and non-certified accountants in public practice among other things is that, ultimately, only certified public accountants be permitted to hold themselves out as offering services to the public under a title which uses the words "accountant" or "auditor," or implies an expert knowledge of accounting or auditing; and that, ultimately, only certified public accountants be permitted, as independent practitioners, to use their names in connection with accounting or financial statements in a manner that implies expert knowledge or accounting or auditing.

In addition, we recommend that:

(A) It is an objective of the Institute that non-CPAs who are permitted to offer bookkeeping and other technical services to the public be encouraged, with help from CPAs, to form a national association to develop appropriate standards and confer on its members an appropriate title clearly differentiating them from accountants or auditors;

(B) Pending the time when public practitioners within the accounting function are either CPAs or those with a clearly differentiating title, there will be a group of non-CPAs who are presently permitted to practice as "public accountants" and whose right to continue to do so during their lifetime must be respected. It is an objective of the Institute that CPAs and their professional societies should develop and maintain friendly cooperative relations with this transitional group with the purpose of improving educational, technical, and ethical standards, and providing aid in fulfilling the requirements for the CPA certificate.

Through our chairman we move the adoption of these two recommendations as objectives of the Institute.

Respectfully submitted,

J. S. Seidman, Chairman
Herman W. Bevis
Robert M. Trueblood
Robert E. Witschey

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Report of Committee on Long-Range Objectives

October 24, 1959

Revised January 6, 1960

To the Council of the American Institute
of Certified Public Accountants

Subject: Relations Between the American Institute
and State Societies

1. Importance of Subject

At present both the Institute and the state societies are increasing expenditures. This is caused by rising costs due to inflation, expansion of existing activities and services, and addition of new projects. There is also a hidden cost -- the expenditure of time and energy by members who serve as volunteers on committees, as officers, and in other capacities. This hidden cost may well constitute a greater contribution to the work of the professional associations than actual cash paid in dues and assessments.

It seems obviously desirable that the activities of the state and national groups should be planned and coordinated so as to avoid waste of time and money through duplication of effort, jurisdictional conflicts, confusion as to objectives or methods, and imperfect communications.

The responsibilities and authorities of the national and state professional organizations should be clearly delineated, agreement should be reached between them as to objectives and methods, and each should perform efficiently and economically the tasks assigned to it.

Planning is also necessary to assure that both the local and national organizations will have adequate financial means to carry out their obligations effectively.

Ultimately, it may be assumed, the membership will demand a pattern of organization and activity which will produce the greatest range and quality of services, and the widest opportunities for personal participation, at the lowest cost in money, time and energy.

To these ends a common membership in the state societies and the Institute is highly desirable.

2. The Present Situation

Since 1942 the Institute's Committee on Coordination with State Societies, and the State Society Department in the staff have been working toward this objective: "To coordinate the activities of the American Institute and the state societies so as to produce by the most efficient means the most useful results for their members."

Currently, the principal activities conducted in implementation of this objective are:

1. Semi-annual meetings with state society presidents and with state society executives.
2. Visits by Institute representatives to state societies and chapters.
3. Issuance of a State Society Newsletter and a Public Relations Newsletter.
4. Maintenance of a speakers' bureau for state societies (103 speakers provided last year).
5. Consultation and advice on state legislation, ethics, and other specific programs.
6. Issuance of manuals, kits, programs and studies dealing with state society organization and activities.
7. Distribution of information -- minutes of Council and Executive Committee meetings, and various other materials.
8. Miscellaneous advice and information.

In the current year the cost to the Institute of this and related work will be about \$80,000.

In 1959 a survey was made to appraise the success of the State Society Department in achieving its objectives. While there was some negative reaction, the replies on the whole were overwhelmingly favorable.

There was no evidence of significant duplication of effort and expense, or conflict between activities of the Institute and the state societies.

When it is considered that the relationship between the state and national organizations is purely voluntary, that persuasion is the only influence either can exercise on the other, that no contractual obligations exist between the two groups, that there has been no clear delineation of responsibility and authority in the various areas of activity, the record on the whole is surprisingly good.

But it must be observed that overall planning and control, in the sense in which these terms are used in modern business management, are not being applied to the problem of coordination.

3. What of the Future?

There are inherent in the present situation basic problems which may become troublesome in the future.

There are estimated to be 65,000 CPAs in the United States.

At the present time there are about 35,000 members of the Institute; the total aggregate membership in the state societies is about 41,000. While precise statistics are not available, it is believed that several thousand members of the Institute -- mainly among those not engaged in public accounting practice -- are not members of state societies. There are, therefore, many more than 6,000 state society members who are not Institute members.

Clearly there are many thousands of CPAs who belong to neither a state society nor the Institute. This is cause for concern. It means that the profession is not effectively united, and that many of its members are not exposed to information and ideas which are essential to full professional maturity and competence.

While so many are satisfied to remain outside the organized ranks, and so many are content to belong to either the national or the state organization, but not the other, the question must remain whether the profession's organizational structure is sound for the long future.

There is no doubt that the activities of the state societies and the Institute are of value to every CPA. Every CPA who does not belong to both is, therefore, getting something for nothing.

The existing structure tempts a firm of two or more partners to divide their memberships between the state and national organizations, thus deriving maximum benefits at the expense of other members who belong to both groups.

State societies which include a considerable number of members who do not belong to the Institute are under some pressure to make available for their non-Institute members some of the services which the Institute already provides, such as group life-insurance plans. This may lead to duplication of expense and effort which from the viewpoint of the profession as a whole is uneconomic.

4. Meetings

The Institute, except for its annual meeting, holds no meetings under its own auspices. Members therefore may not identify themselves so strongly with the Institute, or find opportunities to participate in its activities as extensively as in the case of the state societies. As the Institute's membership grows larger (it is estimated to reach 62,000 by 1970), the problem of maintaining adequate communications with the members will increase.

To meet this problem there has been some consideration of creating sections within the Institute, or of holding area conferences of the Institute. The question immediately arises whether section meetings or area conferences would overlap or conflict with meetings programs of the state societies, particularly the larger ones.

On the other hand, a desire has been expressed for technical meetings under the auspices of the Institute in the states where societies are smaller and less well organized. In some states there is evidence that some CPAs value the services the Institute provides more highly than those of state societies.

The question must be faced, therefore, whether an economic recession would result in substantial withdrawals either from Institute or state society membership, and a consequent sharp drop in revenues of either or both.

Increased efforts to minimize this danger by increasing activities, opportunities for participation, direct services and local meetings of various kinds, may tend to bring the state and national organizations into wasteful competition.

An all-out effort by the Institute to serve its members directly throughout the country might weaken the state societies. On the other hand, the more the Institute helps the state societies to expand and improve their services to members, the more the Institute may be exposed to the danger of impairing its own financial ability to do the things that none but a national organization can do.

It must be conceded that these dangers at present are more potential than real. Both the Institute and the state societies have simultaneously made substantial gains in membership. In both, the annual losses due to resignation and non-payment of dues are notably small. As far as can be determined, both have a strong hold on the loyalties and interests of their members. It may be argued that the more useful the Institute becomes to the state societies, the more they will promote and encourage Institute membership, and vice versa. Up to the present time this seems to have been true; but with all good will on both sides, there is no built-in guarantee that the present happy state of affairs will continue in the face of adverse conditions.

5. Duplication of Effort and Expense

In the past, there have been some examples of unnecessary duplication of effort and expense on the part of the Institute and the state societies. For example, some years ago some of the larger state societies appeared at congressional hearings on tax and other proposed legislation, where the Institute was also testifying. Some state societies have prepared public relations documents and similar publications which did not differ substantially from materials already available through the Institute, or which the Institute might have prepared for the use of all state societies. Obvious duplications of this nature have been virtually eliminated through improvement of communications and closer cooperative relations.

Possibly analysis would show that even better coordination could result in savings -- particularly savings of time of volunteer CPAs serving as members of committees. For example, the independent solicitation of members for the state societies and the Institute is costly in time and effort. Under present conditions, however, if an effort were made to solicit for both organizations at once the resistance of prospects might be increased due to the substantial aggregate dues.

In the field of ethics, there should be uniformity, not only in the codes themselves but, even more important, in the enforcement procedures. Since the state societies and the Institute are independent and autonomous, a violator who belongs to both must now be independently tried and disciplined by two organizations, in addition, often, to the state board of accountancy. Recently there have been two cases in which the findings of the Institute trial board have differed radically from those of the state societies which had already heard the cases.

Many of the state societies publish membership directories, as does the Institute. This is an expensive procedure, particularly when large numbers of copies of the directories are sent to banks. If there were a common membership, the geographical sections of the Institute's directory should serve the purposes of the state societies.

The publications of the state societies and the Institute occasionally overlap to some extent, more frequently in the reporting of professional news, less frequently in the reprinting of articles.

In the large metropolitan areas particularly, both the state societies and the Institute have found themselves approaching the same newspaper and magazine editors for public relations purposes.

It seems likely that many of the state society committees dealing with the same subject-matter as similar Institute committees are unnecessarily going over the same ground and failing to benefit from the work that has already been done by others. It has been suggested that direct lines of communication should be established between Institute committees and the counterpart state society committees. Objection has been raised on the grounds that the state society president and executive might lose administrative control over their programs as a whole if their committees were receiving materials and suggestions from Institute committees. On the other hand, the clearance of such materials through the state president or executive puts a heavy burden on him in appraising and distributing such materials, which may result in bottlenecks.

It is impossible to determine the precise extent to which there may be unnecessary duplication of effort by volunteer manpower in the professional organizations, but it seems safe to assume that some such duplication now exists.

6. Conflicts

Direct conflicts or outright differences between state societies and the Institute are fortunately rare. The possibility of such incidents in the future, however, must be considered. There have in the recent past been isolated illustrations of situations in which a state society has taken a position directly opposed to that of the Institute on a matter which, while transpiring within the borders of the state concerned, was affected with vital national import. There have also been a few cases of state societies taking on projects, without any intention of so doing, that were in direct competition with established programs of the Institute and tended to impair the value of such programs for the profession as a whole. An example is group life-insurance programs.

7. Organizational Weaknesses

If the state societies and the Institute are conceived as parts of the same thing -- the organized profession of certified public accountants in the United States -- the present organizational structure and administrative procedures would not bear comparison with those of a well-managed business corporation.

There is lack of clear delineation of responsibility for end results.

There is no systematic measurement of the accomplishments of each unit in comparison with those of others, or in relation to expenditures of dollars and volunteer man-hours.

There has been no formal agreement on long-range objectives or of priorities for a given year.

It seems likely that efficiency and economy could be improved by a unified organizational pattern and standardized procedures in the state societies and the Institute.

8. Alternative Courses

It is recognized that in all human group activity conducted under the principles of freedom and democracy, there will be diversity, contention and conflict. These elements exist even within the best-managed business corporations. But difference of opinion is useful only when it is channeled in an orderly way to at least a tentative conclusion which may then govern until changed.

The present system of voluntary cooperation between the Institute and the state societies is undeniably working surprisingly well.

But the profession should have clear long-range objectives in this, as in other areas. What situation will be best for the profession 20 years from now?

There are several possible courses available, and doubtless many possible variations of each.

An obvious suggestion would be to merge the state societies and the Institute, either in the form of a federation of state societies (like the Canadian Institute of Chartered Accountants), or a strong national organization with local chapters (like the Controllers Institute of America).

But both types of organization have weaknesses, and proposals to move in either direction would undoubtedly meet strong resistance within the profession.

The committee believes that the present policy of voluntary cooperation may be extended to eliminate some of the weaknesses discussed in the preceding sections, without altering the present structure or impairing the independence of either the state societies or the Institute.

9. Common Membership

Solution of most existing problems would be greatly facilitated by common membership in the state societies and the Institute, and surely this is a desirable goal in itself.

The goal could be attained by simple voluntary agreements between the Institute and state societies to admit as

members only CPAs who would join both the state and national organizations. Such agreements could be only prospective, not retroactive. There would be no necessity of altering the existing dues structure of either the state societies or the Institute, and each could continue to collect its own dues. However, resultant economies (as in membership solicitation, publication of directories, etc.) might in time permit reduction of dues.

Most important, such a policy would eliminate the temptation to an individual CPA to make a choice between the state society and the Institute, thus deriving the principal benefits of both without paying the full cost. This would make competition for member interest unnecessary, and minimize the danger that either group might suffer sudden substantial membership losses in a period of recession.

10. Planning and Control

On a voluntary basis also, it seems to this committee, there could be adopted certain management policies which would maximize economy and efficiency.

It should not be difficult to develop specific agreements on the areas of activities which properly fall within the jurisdiction of the state and national organizations.

For example, it seems reasonable to this committee that the national organization should assume primary responsibility for research, development of technical and ethical standards, uniform requirements for the CPA certificate, federal legislation, recruiting and public relations materials (such as films, pamphlets, etc.), and similar matters. The local organizations should have primary responsibility for dealing with state legislatures, state taxation authorities, and relations with local bar, banking, business, educational, and governmental organizations. The state societies should also have responsibility for implementing programs agreed upon as uniform national policy.

With such agreement, it should be practicable to develop long-range and short-range objectives in each area of activity; to prepare work programs designed to achieve stated objectives; to assign responsibility for end results; to develop a system of periodic reporting, and to measure accomplishments.

Uniform administrative, budgeting and accounting procedures might follow as a matter of course.

11. Recommendations

This committee recommends the following:

1. It is an objective of the Institute that every eligible CPA, in furtherance of his own development and fulfillment of his professional responsibilities, be encouraged to become a member of a state society and the American Institute of Certified Public Accountants, and that membership in both be required to be concurrent as soon as possible.

2. It is an objective of the Institute that by voluntary agreement the plans, programs, procedures and activities of the state societies and the Institute be coordinated to the full extent possible, and their respective areas of responsibility be clearly delineated; and in particular that the state societies and the Institute adopt a uniform code of ethics and enforcement procedures.

If the Council adopts these objectives, this committee recommends that the Committee on Coordination with State Societies be requested to study, in consultation with the state societies, possible means of implementing the objectives, and submit detailed recommendations to the Council at its meeting in April 1961.

Respectfully submitted,

J. S. Seidman, Chairman
Herman W. Bevis
Robert M. Trueblood
Robert E. Witschey

REPORT OF COMMITTEE ON LONG-RANGE OBJECTIVES

April 26, 1960

To Members of Council of the American
Institute of Certified Public Accountants

Since the last meeting of Council, the committee has held two two-day meetings. It will also meet this coming Friday and Saturday here at the Greenbrier. As you have been informed, the committee will act as a panel at an evening session on Friday to which have been invited members of the Institute from the surrounding area. Any of you who are staying over are also cordially invited.

Topics Now Under Study

Before getting to the objectives which the committee has presented to you for action at this session, you may be interested in knowing the subjects which the committee is now studying. Out of a list of more than a dozen possible topics, the committee at its last meeting selected the following five as deserving, in its opinion, the higher priority:

1. The relationship of accounting practitioners and accounting educators; the formal educational process as related to the needs of public practice; recruiting for the profession; and the need for incorporating in the educational process instruction as to newer techniques, such as mathematics in decision-making (operations research). Assigned to Norton Bedford, Professor of Accounting at the University of Illinois.

2. Exploration of the proper role of management services within the CPA's practice. There is a collateral question of the appropriate status for the non-CPA specialist within a CPA's practice. Assigned to Bob Trueblood.

3. The broad problems arising out of the fact that public accounting is under fifty-three separate political jurisdictions. Some of the problems arising from this situation are receiving current attention. But what is the entire range of problems and what are their broad-scale implications for the profession? Assigned to Cliff Heimbucher.

4. Higher accreditation. Would the public interest and the profession be better served by one or more accreditations for CPAs who have reached stages of competence higher than the minimum requirements for initial receipt of the CPA certificate? If so, what form should it or they take? Assigned to Jack Carey.

5. Trends in the needs and uses of the CPA's opinion on data furnished by an organization to outsiders, including data furnished to the government. (Our committee calls this the use of the CPA's "attest function".) Are people other than public accountants actually performing an attest function (revenue agents, examiners of regulatory bodies, auditors of government agencies, etc.) or is this an illusion? What should the professional societies do to make the basic principles known to all interested parties? Assigned to Herman Bevis.

Also high on the agenda, but not yet assigned for initial study, is the subject of independence. To what extent should or should not independence be an absolute requirement in a CPA's work other than that leading to opinions for third party use?

Objectives Being Currently Recommended

All members of the Council have been furnished with the report of the committee, which concludes with two recommendations of objectives having to do with the relationship of the Institute and the state societies. I do not propose to repeat that report but, rather, to take advantage of some reactions which the committee has received and to fill in some of what seems to have been gaps in our report.

There is also one word of explanation about the signatories to the report. It is signed by the members of last year's committee, since those are the persons who brought the study of this matter to a conclusion. However, the first item of business for the new committee was that of ascertaining whether the new members disagreed with any portion of it. They did not but, on the contrary, also heartily endorse the recommendations.

Background Study of Professional Organizations

Some three or four years ago a questionnaire was circulated among members of Council and officials of state societies on a number of matters. One of these had to do with existing Institute-state society relationships. Approval of the then existing situation (which has changed little since) was widespread, so that the committee knew then that it had no acute problem on its hands.

However, in studying the organizations of other professions in the U. S., of other accounting organizations in the U. S., and of other professional accounting bodies abroad, a striking contrast was noted. These others were either a federation of state or local groups in which the national organization operated as a "house of delegates," or a national organization in which membership ran directly to it with the state or local organizations being "chapters." The organization of

CPAs, on the other hand, was noted to consist of a national organization and separate, autonomous, independent state societies, each one of which had direct -- and largely overlapping -- membership.

The committee pursued these comparative studies but came to the conclusion, which may seem surprising to many of you, that neither a federated nor a chapterized form of professional organization would seem to be a desirable objective for CPAs in the foreseeable future. The state-oriented certificate was a strong reason for maintaining independent state bodies, and the obvious national scope of many of the problems involved in the public practice of accountancy argued for a strong national society. Perhaps the most compelling reason for the committee's conclusion was this: the CPAs seems to be served more effectively by their professional organizations than any other group which could be found either in this country or abroad. In fact, it would look as though other organizations could well study the CPAs' system. This is not to say that the committee would deny that one or the other forms of amalgamation might take place eventually but that, rather, no controlling considerations pointing in such a direction have yet emerged.

Objectives of Professional Organizations

Notwithstanding the foregoing conclusion, the committee could not escape the obvious, namely, that all professional organizations have similar objectives. These may be broadly summarized as follows:

1. To maintain and raise standards of competence, performance and professional behavior among the members.
2. To provide means of exchanging professional experiences through literature and forums.
3. To inform laymen regarding the profession, the laymen including legislators as well as users and potential users of professional services.

With a national and the state groups having identical objectives, the committee then explored whether the existing satisfactory situation could still be improved. It observed the working relationship already existing between the Institute and state societies, now largely carried out by consultation and cooperation among the various societies' executive staffs. The committee concluded that this state of affairs might well be tremendously enhanced by a formal acknowledgment among the Institute and state societies that there should be a systematic evaluation of the more appropriate spheres for each in the whole pattern of functions which professional organizations should perform for members. Accordingly, it concluded to recommend the objective regarding coordination of plans, programs, procedures and activities.

Common Membership

The recommendation regarding common membership flowed almost automatically from the foregoing reasoning and conclusion. If the whole spectrum of the contribution which professional societies can make to the professional man is divided on a logical basis between the Institute and state societies, then the professional man -- if he is to be the whole professional man -- logically should belong to both of them. The alternative, of suggesting that the professional man has a clear choice between the two, not only denies the basic proposition which the committee adopted but, even further, suggests that the national and state organizations are, or should go into, direct competition with each striving to do the whole job of a professional society. This would obviously be unsound.

What Is and Is Not Intended

What is not intended is any precipitate, unilateral action on the side of either the Institute or the state societies as regards common membership -- and perhaps the committee was at fault in not making this very clear. While implementation is not within the province of our committee, it seems that implementation must take something like the following course if the objective is considered sound:

1. The Institute must pass "enabling" legislation through amending its by-laws to provide that an additional requirement for membership in it would be membership in a state society where the latter also adopts the cross-membership requirement.

2. Any state society which also adopted the objective as sound must take corresponding enabling action.

(In both cases, "grandfather" clauses would undoubtedly be found appropriate for existing members.)

3. The Institute must work out with those states any conflicts in existing membership requirements.

Each state must assess the desirability of the objective in terms of local conditions. Any pressure on a state to adopt the common membership requirement, as the committee sees it, could come only after a substantial number of the states had actually placed the requirement in operation, so that the question would become stronger with regard to why the others did not also do so. Thus, the history might well parallel that of adoption of the uniform CPA examination.

With regard to coordination of program, this will require a careful analysis of areas of appropriate responsibility, through which the committee believes that there will be found a hard core

of things which the Institute should do and another hard core of things which should be done by state societies. There will undoubtedly be a no-man's-land in between. As a matter of interest, I attempted to make a comparative analysis of the committees of the Institute and the New York State Society. It seemed to me that some 70% of the State Society committees were engaged in fields which must have some elements in common with specific Institute committees. From the Institute's side, some 63% of the committees seemed to be related in some degree to specific ones of the State Society. Most of the State Society committees which seemed to have little in common with Institute committees deal with accounting and auditing for particular industries, and in taxation and legislation of the state. Most of the Institute bodies which had no parallel were designed to cooperate with federal and other national bodies and to deal with the CPA certificate.

The committee would like to re-emphasize that it believes in the independence, integrity and dignity of both state societies and the Institute and that it believes that its objectives can be carried out without impairing any of these.

Recommendations

Mr. President, in order to put a matter on the floor for discussion, I make the following motion on one of the two objectives:

THAT it is an objective of the Institute that by voluntary agreement the plans, programs, procedures and activities of the state societies and the Institute be coordinated to the full extent possible, and their respective areas of responsibility be clearly delineated; and in particular that the state societies and the Institute adopt a uniform code of ethics and enforcement procedures.

* * * * *

Mr. President, I now move the following with regard to the other objective:

THAT it is an objective of the Institute that every eligible CPA, in furtherance of his own development and fulfillment of his professional responsibilities, be encouraged to become a member of

a state society and the American Institute of Certified Public Accountants, and that membership in both be required to be concurrent as soon as possible.

Respectfully submitted,

Committee on Long-Range Objectives
Herman W. Bevis, Chairman
Norton M. Bedford
Clifford V. Heimbucher
Robert M. Trueblood

REPORT OF COMMITTEE ON LONG-RANGE OBJECTIVES

September 6, 1960

To Members of Council of the American
Institute of Certified Public Accountants

We are pleased to learn that objectives recommended by this committee and adopted by Council will henceforth be printed in the pamphlet containing the by-laws and rules of professional conduct.

Since the 1960 spring meeting of Council, the committee on long-range objectives has held two meetings. One on May 6-7, immediately following the Council meeting, at the Greenbrier, West Virginia; and a second in New York, September 6 and 7, 1960.

At the meeting the evening of May 6, to which had been invited certified public accountants from nearby cities in Virginia and West Virginia, the committee acted as a panel, for a discussion of topics under study by the committee. Those in attendance at the session expressed their points of view on subjects of importance to them, which were having the attention of the long-range committee. The audience was constituted largely of local practitioners, and the participants generated an interesting discussion which was useful to the committee, and we trust to our guests. Several members of Council were also present at the meeting, and it was helpful to have their thinking on the subject-matter under review.

As reported to you in the spring, each of the members of the committee has undertaken study of a specific topic, and each member has now submitted an outline of the subject assigned to him, which have been commented upon at length by the full committee at meetings and through correspondence. All of the subject-matter relates to accounting practice of the future:

Trends in the Need for the Attest Function
Education for a Learned Profession
53 Jurisdictions - National Standards
Proper Role of the CPA in Management Services

The committee's objective is ultimately to develop articles for publication in The Journal of Accountancy or some other media. The papers possibly may lead to specific recommendations to be presented to the Council for consideration.

The assignment made to John Carey on "Higher Accreditation for Certified Public Accountants" has progressed much further, and at its last meeting the committee approved an article prepared by him on this subject for publication in an

early issue of The Journal. The committee would be glad to receive the reactions of members of the profession, and Council members particularly, to the propositions set forth in this paper.

Specific recommendations on "Higher Accreditation" will be submitted by our committee to the Council in due course.

An article by Robert M. Trueblood on "Professional and Technical Practitioners in Accounting", was published in the current issue of The Journal. The article reflects material and ideas developed in many sessions of the long-range committee over a period of more than two years.

Your committee has already scheduled a meeting for January 9, 10, and 11, 1961 in California. It will devote two full days to deliberation of priority items on its agenda. On the evening of January 10, it will meet with members of the San Francisco Chapter of the California Society of Certified Public Accountants, when it will again act as a panel for discussion of subjects under consideration by the committee, and also of problems which in the opinion of the CPAs in this area require early attention. A similar meeting will be held with members of the Los Angeles Chapter on the evening of January 11.

Respectfully submitted,

Committee on Long-Range Objectives

Herman W. Bevis, Chairman
Norton M. Bedford
Clifford V. Heimbucher
Robert M. Trueblood

Report of Committee on Long-Range Objectives

September 11, 1961

To Members of Council of the American
Institute of Certified Public Accountants

The committee on long-range objectives has completed its study of three professional problems which it believes to be of basic importance:

1. Accounting Education of the Future
2. The Variation in Standards Resulting
from Lack of Uniformity among the
53 Jurisdictions
3. The CPA's Independent Audit Function
in our Modern and Ever Changing
Society

Members of the committee have completed papers on each of these subjects, which have been thoroughly reviewed and revised in the light of comment by other members of the committee.

The fall meeting of the Council does not permit enough time for consideration of the objectives recommended by the committee as a result of these studies. The present committee, however, the personnel of which will be changed after the annual meeting, would like to place on the agenda of the Council meeting to be held in the spring of 1962, the following recommended objectives, with the understanding that the papers leading to these objectives will be placed in the hands of the Council well ahead of time:

- I. It is an objective of the Institute
 - (1) To encourage the statement and continuous updating of those areas of knowledge and technical competence required by the CPA in his present and prospective professional practice.
 - (2) To bring about the clarification of the areas of responsibility of universities, practitioners and professional societies in the education and training of professional accountants.

* * *

- II. It is an objective of the Institute to bring about uniform national standards for CPAs in the requirements for issuance of CPA certificates, in freedom of movement in interstate practice, in recognition of qualified accountants of other countries, and in codes of ethics and enforcement procedures.

* * *

- III. It is an objective of the Institute to
- (1) Identify those areas in society where a need for the independent audit function exists, and to promulgate such information to its members and the interested public.
 - (2) Assist its members in equipping themselves to discharge this function wherever a useful social purpose is served.

Resolutions suggesting methods of implementing these three objectives will be suggested to the Council at the meeting next spring.

This information is submitted to the Council at the present time only as a means of informing Council members so that they will have an opportunity to give thought to these propositions as far as possible in advance of the necessity for action.

Respectfully submitted,

Herman W. Bevis, Chairman
Norton Bedford
Clifford V. Heimbucher
Robert M. Trueblood

REPORT OF COMMITTEE ON LONG-RANGE OBJECTIVES

May 22, 1962

To Members of Council of the American
Institute of Certified Public Accountants

Since its appointment last November, the committee on long-range objectives has held two meetings: one in January in New York, and one in Chicago in April, each of two-days duration. A third meeting is scheduled to be held in San Francisco in June, and a fourth meeting is planned for August.

Having completed the first five years of its existence, under the distinguished chairmanship of Jack Seidman and Herman Bevis, respectively, the new committee at the January meeting reviewed its activities and its history for the purpose of determining its future program.

As a result of this review, the committee reached a decision that the eleven published papers, as well as other documentation resulting from the committee's work, should be brought together, in logical sequence, in the form of a monograph.

At the request of the committee, John Carey undertook to prepare the manuscript, the final draft of which has now been reviewed by the members of the LRO committee. It is anticipated that the monograph will be completed and will be available some time this summer. With the approval of the Executive Committee, the monograph will be sent to all members of the Institute, as well as to universities and others interested in the accounting profession, in the belief that it will provide a useful basis for planning the future course of the profession.

Over the period of its existence, the committee has proposed 8 objectives, of which 6 have been adopted by the Council. Three additional objectives will be submitted to you at this meeting, with a recommendation by the Executive Committee that they be approved. If favorable action results, resolutions for implementation of these objectives will also be proposed to carry forward the proposals.

Considerable thought and discussion has been devoted by the LRO committee to its future program of activity. It has now determined to embark upon a projection of what it conceives to be a desirable position for the accounting profession to occupy in 1975. The committee will devote its major efforts to this project, probably for a two-year period. It will consult economists, political scientists, accounting educators, and other experts in attempting to foresee the environment in which accounting will function at that time. The Executive Committee has approved a request that \$2,000 be provided in the revised budget for the current fiscal year, and \$5,000 in the budget for the ensuing fiscal year, to permit the LRO committee to arrange consultation of this kind.

I have here the initial draft of a working paper which we propose to use in our development of the "Profile of the Profession in 1975." This document divides our prediction problems into eight major areas such as: the social and the political environment, problems of education, possible changes in the structure of the profession -- and so on. Literally hundreds of factors and questions are raised in relation to where CPAs may find themselves in 1975. After a trial run at our San Francisco meeting, this document will be supplied for the information of all members of Council and all state societies. It is hoped that each of you will contribute significantly to our deliberations and prognostications.

I would now like to present formally for your approval the three objectives and implementing resolutions which were distributed to you for study in advance of the meeting, with a recommendation that they be acted upon separately.

The first of the proposals to be presented by the LRO committee is on the subject of education. The committee's work on this matter was developed into a position paper by Norton Bedford of the University of Illinois, and published in the December, 1961 Journal, and has recently been redistributed to members of Council.

In indicating that the accounting profession is changing in scope, activity, and importance, Bedford suggests four areas requiring examination. He says:

"1. There is need for an organized educational process for the teaching of ethics in such a way as to inspire ethical conduct.

"2. There is need for an improvement in the educational program aimed at the development of a cultured professional man motivated to assume social responsibilities and dedicated to a life of continuing study.

"3. The technical education program needs to be expanded in scope and modernized in quality along the lines of newer methods for measuring and communicating economic data. In times of rapid social, technical and economic changes, members of the profession must be able to adjust to a continuously changing new operating environment.

"4. While the profession has exhibited interest in research, there is a need to tie the research at the practical level back to research in mathematical methods and developments in the social sciences in the way the medical profession has related its research to such disciplines as chemistry and other physical sciences."

It is apparent that these various problem areas affect and involve education at the collegiate level, in the transitional education of the young man who has just entered practice, and in the continuing education required by the mature practitioner.

An overriding and very important comment of Bedford in his paper is that:

"The proper view of the accounting curriculum at the university is that the universities should not try to produce fully qualified professional accountants. Rather, they should educate students who are sufficiently grounded in the basic principles of measuring and communicating economic data so that they can learn to be fully qualified professional accountants."

Mr. President, I move the adoption of the following objective which has been proposed by the LRO:

"It is an objective of the Institute:

"1. To encourage the description, and continuous restating, of those areas of knowledge and technical competence required by the CPA in his present and prospective professional practice; and

"2. To bring about the clarification of the areas of responsibility of universities, practitioners, and professional societies in the education and training of CPAs."

For the information of Council, I also propose, if the above objective is passed, to move the passage of the following implementing resolution:

"In furtherance of this objective, the Council requests the Executive Committee to assign a permanent committee, with senior status, the responsibility for accomplishment of the above objective."

In proposing this resolution, the committee on long-range objectives is fully cognizant of the existence within the Institute's committee structure of the committee on relations with universities, with senior status, and also that Council has authorized an initial study of the "Common Body of Knowledge" of CPAs. However, the committee feels strongly that a continuous study and updating of the body of knowledge underlying the accounting profession is of utmost importance, and therefore that the Institute should establish a policy through which the organized profession will be assured that a senior committee will give continuing attention to this matter.

The next objective proposed by LRO has to do with the CPA's "independent audit function" -- a term we have deliberately changed to the "attest function" for the purposes of this discussion, because of the slightly broader connotations of the word "attest."

The position paper underlying this proposal was prepared by Herman Bevis, past chairman of the LRO group, was published in the Journal in February, 1962, and has been redistributed to you in preparation for this meeting.

By way of background, Mr. Bevis indicates in his article that:

"The attest function results in the expression of an opinion by an independent expert that a communication of economic data by one party to another is fairly presented. Discharged of the function lends credibility to the representation and increases reliance upon it. The opinion implies (if it does not so state) that the data presented are appropriate for the purpose of the representation, that there is objective evidence underlying the data, and that the judgments exercised in interpreting the data are such as to justify the opinion."

Since "satisfactory operation of a highly industrialized society, with its complexity of interrelated units, requires the measurement and communication of an extraordinary scope and quantity of economic data," it is suggested that the attest function may extend, over time, to a considerable number of areas and uses in which the function is not now fully developed. Some of the suggestions for extensions which were found in existing literature are these:

1. Attestation of Federal income tax returns.
2. Certification to business planning -- sometimes called "prospective accounting."
3. Representation before courts as referee in resolving issues in litigation turning on accounting questions.
4. Independent audits of unlisted companies.
5. Possible legislative requirements for independent audits of banks, credit unions, non-profit organizations -- and so on.
6. Attestation to industrial and/or economic statistical compilations.
7. Most importantly, the use of independent auditors by Government for such purposes as:

- (a) Determination of acceptable cost data.
- (b) Protection of government funds advanced as loans or grants.
- (c) Aid in determining compliance with regulatory statutes.
- (d) Establishing basis for regulation or setting of rates to be charged by regulatory companies.

The committee's study of the use of the attest function in this country (and abroad) established that its use in this country was in fact quite "uneven." The suggestions for extension are simply ideas or examples of areas in which the CPA's roll might be extended, enlarged, or just possibly created. The committee, of course, contends that any such extensions "must be reviewed carefully against the conditions under which the attest function makes its contributions: a representation which is communicated; acceptable standards for the measurement and communication; relevant evidence available for examination by the independent auditor; etc."

As the result of its deliberations LRO proposes, and I move, that Council adopt the following objective:

"It is an objective of the Institute:

"1. To identify those areas in society where the need for the CPA's attest function exists, and to promulgate such information to its members and the interested public; and

"2. To assist its members in equipping themselves to discharge the attest function wherever a useful social purpose is served."

As a matter of clarification, I further propose, if the above objective is passed, to move the adoption of the following implementing resolution:

"In furtherance of this objective, the Council requests the Executive Committee to take steps to the following ends:

"1. To arrange for the development of a systematic plan whereby over a period of years, issuers, users, potential issuers and users of economic data, and the interested public, may be informed of the purpose, nature and value of the CPA's attest function.

"2. To develop a plan for informing practicing CPAs of the areas in which the attest function is appropriate, and through the professional development program and the Institute's publications, and such other media as may be available, to provide technical assistance in equipping them to discharge this function."

The third and final proposal of the LRO attempts to deal with the problems of practice resulting from the fact that the right of CPAs to practice in the United States is separately controlled by "53 Jurisdictions." The position paper of the committee was prepared by Clifford Heimbucher, as published in the November, 1961 Journal, and has been distributed to each of you in advance of this meeting.

By way of background, Mr. Heimbucher, speaking for the committee, has this to say:

"The accounting profession presently operates under a multiplicity of accounting jurisdictions. The number fifty-three is cited only as the number of state boards or other accrediting agencies in the legal sense. Actually, the number is much greater if we count the American Institute of Certified Public Accountants and the state societies, all of which exercise some control over public practice. The existence of this large number of authorities for promulgating rules and defining standards has inevitably brought about a diversity of criteria for determining qualifications of admission to the profession, for issuing licenses to practice, for judging and enforcing acceptable behavior, and for granting rights to practice across jurisdictional lines. Yet it is well recognized that accounting principles and auditing standards used in carrying on the practice of public accounting are national and even international in scope. They are not based on statutes nor on any other considerations arising out of geographical boundaries. The services furnished, particularly in such fields as Federal tax matters and management services, are also national in character."

The diversity in CPA standards resulting from jurisdictional variations fall into three broad categories:

1. Qualifications for issuance of CPA certificates and licenses to practice.
2. Ethics.
3. Interstate rights to practice.

By way of examples, present CPA laws will, by 1965, require 2 or more years of college in only 21 of the 53 jurisdictions. Presently, one state requires 4 years of experience and 10 states require none -- quite apart from the varying interpretations of acceptable experience which may be applied by

the individual state boards. This multiplicity of agencies and groups which enforce ethical standards -- which of themselves are not necessarily consistent -- is obvious. The difficulties in free interstate practice are well-known. The probable difficulties resulting from our growing international practice seem apparent.

"It is significant to note that although the practitioners qualify for their certificates or licenses under a wide diversity of standards in the various jurisdictions, they are all being accredited to do the same things. Although the legal codes of ethics by which they are regulated differ and the interstate arrangement under which they may operate vary, they are all expected to conform to the same generally accepted accounting principles and auditing standards."

One possible solution to the problem of different requirements for CPA practice was a proposal to nationalize the CPA. Tempting as this approach might be, the proposition would deny our heritage and our history and would undoubtedly create a new series of problems.

The LRO, having abandoned federalization as a workable solution, decided that the appropriate course of action required that the AICPA -- the only organized group which represents all CPAs in all 53 jurisdictions -- must take the responsibility for strengthening our position and correcting our weaknesses.

Mr. Heimbucher, again speaking for the committee, recommends that:

"The Council must close the two gaps which have hampered efforts in solving the problem of fifty-three jurisdictions up to now. One gap has been the absence of a single authoritative body working on all facets of the whole problem. The other has been the lack of an effective means of initiating action. To close these the Council must immediately set up machinery to consolidate the many aspects of the problem into a single package and to take vigorous action to bring about a solution."

Mr. President, on behalf of the committee, I move that Council adopt the following objective:

"It is an objective of the Institute to bring about uniform national standards applicable to the requirements for issuance of CPA certificates and recognition of qualified accountants of other countries, freedom of movement in interstate and international accounting practice, and codes of ethics and enforcement procedures."

And I further propose, Mr. President, that if the above objective is passed by this Council, to move the acceptance of the following implementing resolution:

"In furtherance of this objective, the Council requests the Executive Committee to take steps to the following ends:

"1. To develop and publish comparative statements describing laws, regulations, rules and practices in the 53 jurisdictions inconsistent with Institute policies.

"2. To develop and recommend to Council the revision or adoption of policies as deemed necessary or desirable.

"3. To take steps, in cooperation with state societies, and state boards, to implement the adoption of uniform standards by changes in:

"(a) Institute by-laws, rules, policies, and the form bill.

"(b) By-laws and rules of state societies.

"(c) State accountancy laws, regulations, and administrative practices."

Respectfully submitted,

Robert M. Trueblood, Chairman
Norton M. Bedford
Malcolm M. Devore
Clifford V. Heimbucher

REPORT OF COMMITTEE ON LONG-RANGE OBJECTIVES

April 23, 1963

To the Council of the
American Institute of Certified Public Accountants

At least some of you will be pleased to know that the committee on long-range objectives is nearing the end of its "Grand Project".

The results of the first five years of our work were published last winter in a monograph entitled "The Accounting Profession - Where Is It Headed?" This was a tentative and an interim report on the committee's exploration of the profession's problems and some of the conclusions which it had reached.

More than 12,000 copies of the monograph were distributed to members on request, and 2,000 copies have been sold. We are most encouraged by this significant interest in our work. May I ask each of you to suggest to your friends back home that they write to us about their reactions to the monograph, giving us their frank criticism.

A year and a half ago the present long-range committee commenced the second and final stage of its program. A good friend of the Institute recently remarked to us that it is relatively easy to figure out what is going to happen tomorrow, but looking ahead ten years is hell. Nonetheless, the long-range committee developed a list of questions to which it felt answers were needed. This long series of queries was produced under the title of "Profile of the Profession: 1975". Copies of this document were circulated to all members of Council and to state society officials, with an invitation for comment. It has been reported that a few state societies have undertaken serious study of some of these questions, but the work of the societies is not yet complete and their thinking has not yet been made available to us.

In attempting to formulate answers to some of the puzzling and tantalizing questions about the profession's future, the committee decided to consult experts outside the profession. This technique was adopted since many of the questions of direct concern to the committee related to fields in which members of the committee had no special competence. To this time, the committee has had consultations, most of which lasted a full day, with the following men:

Alex Bavelas, a psychologist specializing in
communications;

Ezra Solomon, an economist;
Ward Foshay, a corporate lawyer;
Abe Charnes and Bill Cooper, possibly the world's
leaders in the newer quantitative methodology;
Dean Courtney Brown, a leading academician and a
businessman of long experience;
Two corporation presidents -- one from a large
company and one from a small;
Arthur Tourtellot, an expert in public relations
with a deep understanding of our professional
problems; and
Mort Grodzins, a political scientist, from the
University of Chicago.

The committee also consulted with a panel of prominent accountants from overseas during the Eight International Congress in New York last Fall. This group included accountants from Mexico, Holland, England, India and the Philippines.

Only three more sessions with consultants and panelists are planned. A three-day meeting will be held in June at which the committee will confer with a sociologist; with an expert in management information systems; and with a panel of users including an investment banker, a commercial banker, and a securities analyst. In early September, the committee will meet in Washington for a day with a group of government officials -- including Commissioner Caplin and Chairman Carey of the SEC. The third and final meeting of this nature is scheduled for early November in Chicago. On the first day of that meeting, the committee will consult with a panel of selected practitioners, and on the second with a panel of selected accounting educators. These meetings, scheduled for the immediate future, will conclude the committee's efforts to secure the views of experts from other fields, the attitudes of users of our data outside the profession, and the thinking of our own practitioners and teachers.

Just a word about our method of operation. Following each of the committee's consultations with experts and panelists, a member of the committee prepares a "Position Working Paper" -- based on the stenographic record of the proceedings, as well as on his own recollection of the conversation. Members of Council, state society executives, and state society officials have been given the opportunity to request copies of these position working papers as they become available. Approximately 200 persons are presently on the mailing list.

Again, let me remind you and urge you that copies of our "position working papers" on all of these various subjects are available to each of you, or to any member of the Institute, upon request. Although the committee deliberately does not spend the time and effort involved in

making these papers "finished and fancy" documents, suitable for publication, I think you will find at least some of them exciting reading. And by all means, send us your reactions, your comments, and your ideas.

Jack Carey has participated in all of the committee's meetings since its organization in 1956, and he has consented to be drafted to draft the committee's final report which will be of book length. He will begin work during his vacation this summer, using materials then at hand, and he will incorporate into the text the results of next Fall's committee meetings -- after the record is available. Meanwhile, state society committees and chairmen of senior committees of the Institute have each been asked to express their views on those questions in the "Profile" which are in their areas of direct interest and expertness.

The final draft of the committee's report, it is hoped, will be completed prior to the spring meeting of Council in 1964. A summary of the highlights of our prognostications will also be prepared for distribution to the entire membership. It is the committee's objective that this document will provide a basis for long-range planning on most aspects of the profession's concerns. The committee's findings may well suggest the modification of existing programs of the Institute, as well as some of the programs of state societies. As a minimum, the monograph will be a well-rounded, fully considered, well-documented statement of the profession's fears, its problems, and its hopes.

The present long-range group believes that it should be discharged upon the completion of its current task. The committee feels, however, and will recommend, that a new planning committee be used during the fiscal year 1964-65 with the mission of proposing, to the executive committee, new professional programs and projects -- or modifications of present programs and projects. The work of the new planning committee should, in our view, be designed to achieve the objectives proposed in the report of the present long-range committee -- but only to the extent that these newly formulated objectives gain acceptance by the profession -- over time.

As you have been notified, our committee is holding a round-table session at this meeting of Council for discussion of questions specifically related to the structure of the profession -- as well as any other subjects which you, as participants, may wish to consider in relation to our professional future. May I personally invite any of you or all of you to attend this open-end, round-table session which will be held at 2:30 this afternoon here in The Theater. There will be no speeches -- just conversation

and discussion, and hopefully a lot of ideas from all of you which will help us in our work.

Respectfully submitted,

Robert M. Trueblood, Chairman
Norton M. Bedford
Malcolm M. Devore
Clifford V. Heimbucher

LRO REPORT TO COUNCIL

May 6, 1964
Boca Raton, Florida

In 1962, the LRO Committee embarked upon a program of consulting with a number of experts, within and without the profession, to obtain their assessment of the impact of the future on the accounting profession. The first such session was held in San Francisco with Ezra Solomon, an economist from Berkeley, in June of 1962. Now, in 1964, our program has been completed. The last session was held in New York in January of this year when we met with Dr. John Gardner, a psychologist and president of Carnegie Corporation.

During this period of about 18 months, the LRO Committee spent 18 days in depth conferences with 40 experts. These experts included 19 practicing and staff professionals in accountancy, 8 users of our product, 4 educators, and 9 professionals from other disciplines.

Position working papers developed from each of these conferences have now been substantially completed. Twelve such papers have been produced and, upon request, distributed to more than 300 professionals. Only two papers are yet to be completed. They have been drafted and will be released shortly. Copies of the position working papers on each subject continue to be available to you, or for distribution to those you may wish to suggest.

As you were told at Council last spring in Phoenix, it was Jack Carey's intention to spend a considerable amount of time last summer and fall in the preparation of a preliminary draft of a book based on the investigative work of the LRO group. Tentatively, his book will be called "The CPA Plans for the Future." Jack Carey has performed this large task in his usual expert manner. The entire book is now in various stages of second, third, and fourth drafting.

"The CPA Plans for the Future" will be divided into three major sections. The first section on Environment was reviewed by members of the LRO Committee during April. The second section on Scope of Practice will be reviewed during the month of May. The third section on the Structure of the Profession (including such subjects as education, training, and ethics) will be reviewed by committee members during June.

Giving effect to the comments of all of the individual members of the committee, Jack now plans to revise his draft for full discussion by the committee during the late summer months. After committee review has been completed, the book will be prepared for release in the fall.

This program of the LRO Committee has been most rewarding and helpful. I think that we have gained much important insight into the problems confronting our profession. One of the most profound observations has been that experts from outside the profession uniformly believe that we accountants must, as a profession, move faster and further than we have been able to do in recent years. Almost without exception, they have warned that, unless accountants "get with it" and "pull up the slack," others will move into areas historically regarded as our own.

Another important point which came to our attention in a number of the sessions -- particularly those with Dr. Lazarsfeld, a Columbia sociologist, and with Dr. Gardner -- is that each profession must continually undertake its own research into its own professional affairs. To a large extent, we think that this kind of "in-house" research activity has been rather effectively accomplished since initial organization of the LRO Committee in 1956 at the suggestion of Mark Eaton, and under the leadership of Jack Seidman. As a committee, we do feel, however, that significant pieces of current and historical professional problems should continuously be researched by committees or by outside experts. Establishment of the current Commission to Study the Common Body of Knowledge is an excellent example. We hope that there will always be at least one or two such programs in progress.

The work of the present LRO Committee will be completed upon the publication of "The CPA Plans for the Future." In the opinion of our committee members, this same kind of investigative effort should be picked up by another group in another year or two -- hopefully in even more depth and with even greater energy.

If accounting as a profession is going to expand and broaden itself, there will be another set of problems ready for investigation by 1966 -- many of which may not even be identified by any of us at this time.

COMMITTEE ON LONG-RANGE OBJECTIVES

Robert M. Trueblood, Chairman
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The Accounting Function in Economic Progress*

The significance of accounting in an industrial economy has been growing so rapidly that it is difficult to keep up with current developments, much less predict the future.

To provide a solid basis for future planning, the American Institute's committee on long-range objectives has devoted a lot of hard thought to the place accounting occupies in today's environment, and to what will be expected of accountants as society becomes even more complex.

The results of the committee's thinking so far will be presented in a series of articles in THE JOURNAL, of which this is the first. Mr. Bevis offers a careful analysis of the accounting function in terms of its significance and the responsibilities of those who practice it. In particular, he offers a fresh approach to the relationships between book-keeping, accounting and auditing, in industry and government as well as in public practice.

WHAT are appropriate objectives for the American Institute of Certified Public Accountants? This is the central question with which the Institute's committee on long-range objectives has been concerning itself for the

last year and a half. It has by now been some time since the committee came to the realization that its central question could not be answered adequately by considering in isolation the Institute, nor its CPA members, nor even all CPAs. Not all CPAs are members of the Institute. CPAs in practice are not all of the persons practicing public accounting. CPAs engaged in accounting outside the public practice also find others — not CPAs and usually more numerous than themselves — engaged in the same type of work. Moreover, the Institute is not alone as an organization of accountants. There are at least six others active on a national scale and many more operating on state, local and industry bases.

The Institute and its members (reference to the Institute in this paper usually also refers to its membership) are parts of a vast complex by which the accounting function is discharged in an intricate industrial society. Sound long-range objectives of the Institute must of course be consonant with — and further — the purposes of the over-all accounting function. But this is not

* This paper was originally prepared for use by the American Institute's committee on long-range objectives in considering some of the broad aspects of its problems. In its original state it had already benefited from hours of stimulating committee discussions; by now it has received further aid in the form of many specific suggestions from the other committee members, J. S. Seidman and Robert E. Witschey (as well as John L. Carey, Executive Director of the Institute, who, while designated staff liaison to the committee, has actually been an integral part of it). Therefore, I can no longer claim that this is solely my work; on the other hand, since I have had final word in making changes, the responsibility for statements and positions in the paper must be mine—H.B.

enough. The Institute is only one of several vital organs making up the organism; the objectives must also be based upon a sound conception of the relationship of the Institute to the whole accounting function.

What is the accounting function?

The accounting function, which includes "auditing" as discussed later, deals with the measurement and communication of economic data*. Such economic data may have to do with the whole — or any part — of any type of organization, be it profit-making or nonprofit, private or governmental.

Under ordinary circumstances, economic data regarding parts of an organization are measured and communicated to supervisory echelons within such organization. Data contained in reports to top management and the board of directors provide them with a basis for guiding corporate policy. Economic data are also furnished to and used by lower echelons for co-ordination and control, as, for example: actual and budgeted income and expenses, used by responsible department heads and other key personnel; sales orders, output and stock position, circulated among the sales, production and warehousing responsibilities; purchase orders, purchases, receipts, stock position and input requirements, all having to do with the inflow of materials — and so on for each type of industry, business and department. The volume of internal economic data is enormous; its importance is great.

Economic data regarding the organization may also be communicated to a variety of persons outside the organization in the accomplishment of a variety of purposes. For example, the economic data regarding a business may be communicated to the following:

* If this phrase seems too broad, "financial data" seemed too narrow.



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man of the board of examiners, and a member of the executive committee of the commission on standards of education and experience for CPAs.

Lenders, stockholders, partners or proprietors — To inform them regarding the status and progress of the enterprise in connection with obtaining or continuing a loan or equity investment.

Suppliers and credit agencies — In connection with the extension of credit.

Labor — For purposes of improving employee morale or in collective bargaining.

Customers — To demonstrate capability to perform. Also where price of products or services sold is, by agreement with the customer, based upon seller's costs or other of his economic data (as in some sales to U. S. government).

Regulatory bodies — To inform them with regard to those affairs of the business which it is the responsibility of the body to regulate.

Taxing authorities — To accomplish the levying, assessing or reviewing of taxes based upon economic data.

Courts — Where necessary or helpful in connection with judicial proceedings.

Associations and agencies — Public and industry — for economic statistics.

Domestic and foreign governments — In connection with international trade, aid, loans, etc.

Lawmakers or public policymakers — To provide economic data as a basis for decisions.

Tabulations similar to the foregoing could be prepared to describe the flow of economic data from other types of organizations as, for example, the community hospital or the federal government agency.

The accounting function exists wherever there are (1) measurement of resources* acquired and consumed and wealth produced and (2) communication of the resulting data. It is as necessary in a system of state ownership as it is in one of free enterprise. In the former, centralized control and direction in a country of any size would become ineffective without it. The accounting function is indispensable in a mature industrialized free enterprise system, for without it balance and stability could not be maintained in the midst of multitudes of diverse interests and competitive conflicts. It exists to some extent in the simplest agricultural economy and will be found

* It should be recognized that some resources—an inventor's imagination, a clerk's "way with customers"—are not susceptible of measurement.

in the small business as well as in the large. The universality of the accounting function should not be obscured by either (1) differences in the nature of the organizations originating economic data or (2) the variety of users and uses.

Importance of accounting function

The relative importance of the accounting function varies among types of economies, among industries, and among companies within industries. An examination of the circumstances under which the function is accorded high degrees of importance may well give evidence as to the fundamental contribution of accounting to economic progress. The circumstances, *vis-a-vis* any given organization, may be divided into the internal and the external.

Importance accorded the accounting function in an organization. The accounting function may be accorded great importance in one profit-making company, and not in another. This may be equally true among nonprofit private organizations, or among governmental entities. Why? It is believed that an analysis of the differences will show that, generally, the more complex the management problem in a successful organization, the higher the degree of development of the accounting function; and that the organization with a highly complex management problem which does not develop its accounting function commensurately generally will not be well run. The complexity of the management problem, and thus the required internal flow of economic data, are often indicated by the number of management tiers. These, in turn, are usually found to vary in direct proportion to such characteristics as size, physical dispersion of operations, the extent of specialization or departmentalization, and the amount and diversity of plant, machinery and materials. It is, therefore, advanced as a reasonable proposition that the more complex the management problem the higher the degree of development required of the accounting function for internal purposes.

The foregoing, however, is patently not a complete explanation of the varying degrees of importance accorded the accounting function for internal purposes. What other factors are involved? The most obvious additional one involves differences in management techniques. For example, the relatively new class of "professional managers" is far more likely to lean upon the accounting function than the diminishing class of founders and sons of founders who have grown

up with their companies. The latter's technique of "managing by the seat of the pants" can be effective with little use of the accounting function because of their enormous personal knowledge of the business.

Another factor involved in the varying degrees of importance accorded the accounting function internally, even when the management problem has the same degree of complexity, is more far-reaching. This is the relative *emphasis on efficiency*. Accounting is likely to be more advanced in a highly competitive industry operating on a narrow profit margin than in a less competitive one where high profits come notwithstanding loose methods. The accounting function is likely to be highly developed in a present-day corporation operating on a nation-wide basis, but hardly developed at all in a peacetime military organization many times larger and with operations scattered all over the world. Why? Because the company has long been faced with competition and has been forced to place great emphasis on efficiency; the military organization has been accustomed to having unlimited resources in wartime and has only commenced to master the problem of managing a large-scale peacetime operation when the resources are limited.

In conclusion, it seems a fair proposition for the long run that the relative importance of the accounting function for internal purposes will vary directly with the degree of complexity of the management problem and with the extent of the emphasis on efficiency (with an additional short-term factor arising from differences in management techniques). The converse also seems valid, namely, that *a complex management problem cannot long be satisfactorily discharged, nor a high degree of efficiency maintained, without a highly developed accounting function.*

Importance accorded the accounting function in an economy. Quite independent of the emphasis on the accounting function for internal purposes will be the varying demands for economic data for external purposes. It is suggested that the relative importance accorded the accounting function in an economy varies directly with the volume of economic data required to flow among natural persons, legal persons and governments. This volume, in turn, depends largely upon the *extent of industrialization of the economy*, the requirements being greater in an industrial society than in an agrarian. The data requirements would appear to turn upon the industrialization factor rather than the form of government or the system of property ownership. As was mentioned earlier, an industrial society

which is conducted under a system of free enterprise may not necessarily accord greater importance to the accounting function than a totalitarian state; some say that, for a given stage of industrialization, the totalitarian state for management and regulatory purposes requires at least as great a flow of economic data as is necessary in the interplay among the various components in a free enterprise system.

Industrialized economic systems based upon free enterprise and private property may still vary in utilizing the accounting function. Why? The following are additional factors affecting the relative importance of the accounting function: the extent to which ownership and management are separated; the extent to which credit is granted; the extent to which privately owned economic units are subjected to governmental regulation; the extent to which taxes are predicated upon economic data; the level of such taxes; the extent to which economic data of the employer enter into collective bargaining; and the character of a country's external economic relationships.

Accounting and government policy

The accounting function is also involved in the shaping of governmental policy. When it is governmental policy to allow economic forces to interplay with little intervention, the flow of economic data to the government may be rather small; the more such policy is to participate in or attempt to regulate the economic forces, the more thorough must be economic data supplied to it.

A factor which temporarily detracts from the significance given the accounting function in an economy, even though a large flow of economic data otherwise seems to be called for, is catastrophic depreciation or actual collapse of the currency such as has occurred in some European and South American countries.

It was concluded earlier that a high degree of efficiency cannot be maintained in an organization with a complex management problem without a highly developed internal accounting function, which suggests that such an organization cannot flourish nor indeed long exist in a competitive economy. The proposition is now advanced that an accounting function of high order is characteristic of a successful industrial economy. It is further suggested that this relationship is essential rather than accidental and that, therefore, *a high degree of industrialization and the attendant economic progress cannot be developed without a highly developed accounting function which makes possible the flow of indispensable economic data.*

The elements in the accounting function have to do with the observing, measuring, recording, classifying, summarizing, interpreting, reporting and inspecting (auditing) of economic data. These steps in the accounting process are carried out by persons who are commonly classified in three groups: bookkeepers, accountants, and auditors.

There is some confusion as to where the bookkeeper's work stops and the accountant's begins, and the problem may be one solely of semantics. To some, the bookkeeper is engaged in activities of an elementary nature, such as copying, applying arithmetic, and carrying out clerical work requiring little or no judgment. Those who hold this view would say that "bookkeeper" merely identifies a type of "clerk." They also readily concede that their "accountant" covers a wide field, applying judgment in the simplest of situations as well as the most difficult.

Others say that persons who make entries in "books" are divided between clerks and bookkeepers. They hold that bookkeepers make many judgment decisions with regard to the categories into which the organization's resources and transactions are to be classified, particularly in connection with individual borderline transactions; they also, however, make entries. This school says that, in essence, the difference between the bookkeeper and the accountant is one of degree, with the bookkeeper applying judgment in the simpler situation and the accountant in the more complex. To these people, the person who copies ("posts") and uses arithmetic under minute supervision or instruction is a "clerk"—not to be differentiated from others doing similar work solely because the records on which he works are part of the "books of account."

Bookkeeping and accounting

It is suggested that for present purposes the relationship between "bookkeeping" and "accounting" be considered important, not incidental; that it be considered that there cannot be sound accounting without skillful bookkeeping; that bookkeeping cannot be taken for granted; that it requires aptitude and accomplishment—in short that, in searching for a dividing line between bookkeeping and accounting, what is found is not a line at all but a grey area of degree. (Not that matters of degree can be ignored, for this is the difference between the medical intern and the world-famous brain surgeon. But it is suggested that the bookkeeper and the bookkeeping process should not be disparaged.)

Regardless of the relative contributions of book-

keepers and accountants one thing is clear: the measurement of transactions and of resources, their translation into a monetary unit, recording and classifying them under a double-entry system of bookkeeping—all of this constitutes a high order of scientific observation for accuracy, completeness, lack of bias, and application of logic in organizing the observed phenomena into meaningful patterns. How *else* would one summarize for communication to distant persons the economic status and trend of a business or other organization—even a simple one? Perhaps the accountant's knowledge and skills are subjected to the greatest test in the large-scale, far-flung organization. But these organizations are made up of departments and subdivisions, so that at the firing line of operations—where the individual transactions are taking place—is found a series of small units. It is the reports of these small units which determine the quality of the summary data, and their reports are no better than the quality of the scientific observation and recording process at their level.

Role of the auditor

The auditor—whether internal or external—plays a strategic role in the discharge of the accounting function. By tests and by observation, he ascertains the manner in which the economic data are being measured, recorded, summarized and communicated, and whether all of these are in conformity with the established plan. He passes judgment upon records, reports and the performance of people, all to the end that the output of economic data is sustained at a high level of quality. Without auditing, degeneration of the accounting process sets in.

The auditor also performs another important task—he looks beyond the presently established plan for carrying out the accounting function to determine whether some different or modified plan is called for by changed conditions. Organizations, methods, people and economic environments are constantly changing; equivalent changes occur in the actual or potential contribution of the accounting function and in the methods of discharging it. Without auditing, any accounting process is exposed to the risks of losing effectiveness because of obsolescence.

All three of the foregoing groups of persons discharging the accounting function—bookkeepers, accountants, auditors—will be found in private employment, in public practice, and in governmental work.

The corner retail store may have no employees in any of the categories but may have its entire

accounting function discharged by an outside person who contracts his services on a part-time basis. On the other hand, the large industrial corporation may employ hundreds of bookkeepers, scores of accountants and dozens of auditors. It may call upon outside accountants for consultation on the unusual transaction, but bookkeeping entries for the thousands of smaller transactions are decided internally. The organization's external auditors operate on a high level of skill commensurate with the complexity of the organization, evaluating particularly the internal controls; it is the internal auditors who check the more detailed bookkeeping processes. Between the giant corporation and the corner store will be found many combinations of persons discharging the accounting function. The extent to which the required bookkeepers, accountants and auditors are in private employment instead of public practice will be found to vary from industry to industry and from company to company.

Bookkeepers, accountants and auditors are also found within federal, state and local governments. Some may be concerned with the internal flow of economic data which is as important in the management of a governmental organization as in a private one. Others, however, particularly accountants and auditors, may be concerned with the economic data communicated to the government by nongovernment entities and vice versa. Accountants in tax authorities may be concerned with the measurement of economic data for purposes of taxation, and its auditors (examiners) may be concerned with the reliability of the reports containing such data. Similar functions may be carried out by regulatory agencies. In military departments, accountants may concern themselves with "statements of cost principles" or other guide lines for the measurement of economic data and thousands of their auditors check such data in connection with procurement.

Observation of conventions

With regard to nonregulated, listed corporations whose securities are held by the public, governmental (SEC) accountants discharge their responsibility largely by observing that conventions for the measurement of economic data and reporting practices have received competent, independent consideration. The external auditing role for these companies has been left entirely to the independent public auditor. The independent auditing role with regard to a regulated public utility may be carried out by independent public accountants for economic data transmitted to investors, but by governmental auditors attached to

regulatory bodies with respect to the economic data (much of it identical) submitted for rate-making or other regulatory purposes.

To summarize: bookkeeping requirements may be discharged in some cases by persons in private employment, in other cases by public bookkeepers and in still others partially by each. With regard to a given economic unit, this situation may change as the unit progresses in size or complexity. Similarly, persons performing the accounting and auditing functions may be private, public or governmental. Often all three participate with respect to the same company. Sometimes, as in the case of the individual consulting a revenue agent in the preparation of his tax return, the only persons involved in the accounting function are the individual who keeps his own books (canceled checks and memoranda) and the governmental revenue agent who assists and advises. The accounting function is always present and must be discharged. By whom, and under what titles, is more obscure.

Public vs. private practice

The foregoing discussion, taken alone, might suggest that the nature of the work done by the *public* bookkeeper-accountant-auditor in furthering the accounting function does not differ in essentials from that performed by his counterparts in private or governmental organizations. It *would* seem difficult to make sweeping statements about the relative complexity of work in public practice as opposed to private. Auditing techniques applied and accounting services rendered by some in public practice are of high order—of the highest order. But, then, some of the accounting and auditing knowledge and skills required *internally* in complex businesses are of high order, also.

What, then, distinguishes the person in the public practice (we might refer to him as the “practitioner”) from the other participants in the accounting function? These two elements: first, the obvious one of service offered to the public (making services generally available) rather than to a single employer; second, an “attest” function.

Services to the public. In an economy where a large flow of economic data is essential, the public interest requires a highly developed accounting function—properly performed. The burden of supplying the economic data falls upon the enterprise which originates it and so, therefore, also does the burden of seeing that the accounting function is properly developed.

Organizations supplying the data frequently utilize the services of practitioners, either out of

necessity or to obtain high quality, or both. In a small organization, the work load may not justify the energies required to develop the necessary skills internally; the time and knowledge of a properly equipped person would not be sufficiently utilized. The void is filled by a practitioner. Similar voids exist, and are filled by practitioners, in organizations up to the largest and most complex. In some of these, internal bookkeeping skills are highly developed, and the void which the practitioner fills is in accounting and auditing. If internal accounting and auditing are both of high order, the practitioner’s participation in the discharge of the basic accounting function involves correspondingly less concern with details but constitutes the greatest test of his professional faculties—not only in technical expertness but in terms of business advice.

Often the practitioner also fills the role of instructor to client personnel. As an organization grows in size and complexity, it is able to participate in discharge of the functions, first of bookkeeping then, progressively, of accounting and auditing. The practitioner, through helping to educate client personnel, can and should be an essential factor in the evolutionary process.

Attesting. Organizations are required to furnish economic data to a variety of external persons. Basic responsibility for the reliability of the data rests with the organization which provides them, but they may be examined and attested by a practitioner in an “opinion” which is provided to third parties along with the data.

Functions of the practitioner

The practitioner’s participation in this connection may derive from one or more of three causes: (1) a need for supplementing internal knowledge and skills in the art of measuring and communicating economic data; (2) a conflict of interest, or possibility of such conflict, between the organization supplying economic data and those using them; and (3) desire on the part of persons within an organization (directors and officers) to minimize their personal responsibility (liability) for the consequences if erroneous economic data communicated by their organization should injure outside parties.

It may be observed that the first reason stated above, the need for supplementing internal knowledge and skills, is the same as that developed earlier in discussing services to the public. It is repeated here because it also is often behind the call for a practitioner’s “opinion.”

The actual or potential conflict of interest be-

tween management, on the one hand, and absentee investors and creditors, on the other, is a significant contributing factor to the use of the practitioner for attesting. It probably underlies provisions for their compulsory use in the English and Canadian Companies Acts, in the SEC Acts, and in rules of such institutions as stock exchanges.

The use of the practitioner to minimize the liability of directors is also a factor. It was undoubtedly an important influence underlying the compulsory independent audit feature of the SEC legislation. It certainly is a contributing feature in the increasing use of practitioners by banks, insurance companies, railroads and other industries which are under no legal obligation to obtain independent audits, but whose directors are responsible for seeing to it that the economic data disseminated by their organizations meet modern standards.

It may be concluded that the practitioner may be a direct participant in the accounting function, filling a void in an organization's internal knowledge and skills. This relationship is likely to be fluid, changing as an organization changes, and differing among organizations as they themselves differ. The practitioner is also called upon to "attest" economic data for more than one reason. These reasons, too, may vary from time to time, as well as among various types of organizations at any one time.

The certified public accountant

The certified public accountant (CPA) is a majority—a growing majority—of those practicing public accounting, not counting those engaged solely in bookkeeping. He is distinguished from all other practitioners in that he has successfully completed a program specified by a state or territory of the United States for persons who would call themselves "certified public accountants." These programs have varied in the past among states and territories, and still do. However, the differences are gradually being narrowed; there is uniformity in one important particular, the written examination. It seems a safe conclusion that the strong pressures at work will result in the CPA group's becoming more and more homogeneous as time passes.

There are also basic forces at work which should result in the ultimate elimination of the non-certified public accountant. The historical distinction noted above between the CPAs and the remainder of the practitioner group may seem slight. In actuality, notwithstanding the variety of earlier preparational programs, the difference has been important. The states' accreditation pro-

grams not only have required certain minimum preparation, but have also acted as a screen. Educators in the United States also have long bolstered the growth of the CPA group in width and depth by identifying advanced accounting instruction with a CPA career; at the present time, formal technical education is almost essential to success as a CPA. The result of the better start has been that CPAs as a group have demonstrated a higher degree of knowledge and skill in the public practice than other practitioners and have earned a higher degree of public acceptance, thus justifying in practice the theory underlying state accreditation. There are individual exceptions, of course. Some CPAs are practitioners in bookkeeping work of the lowest order in the accounting spectrum. Some noncertified practitioners command deep respect because of their skills and applied knowledge.

CPAs in executive positions

The foregoing refers to practitioners. Similar distinctions between CPAs and others in private, governmental and educational accounting pursuits have by no means been established. Many of the leaders in these other fields are CPAs; more are not. No information is available as to whether the percentage of CPAs in leadership positions is higher in proportion to their numbers than holds for non-CPAs. If such statistics were available, they might indicate whether the selection and training processes back of the CPA certificate make for better performance in nonpublic work as they do in the public practice.

Professional organization. The organization of CPAs, the American Institute of Certified Public Accountants, is one of six national organizations of accountants not affiliated with any industry (not included are the noncertified accountants, a diminishing group). Wherein do—or should—these other organizations differ from the Institute?

In terms of participation in the accounting function—the measurement and communication of economic data—it seems clear that there is little to distinguish Institute members from members of the other organizations. They are sharply distinguished, however, in so far as discharging the "attest" function is concerned. Satisfactory discharge of the attest function requires knowledge and skill at least as great as possessed by those directly involved in the measurement and communication of the economic data being attested to. In addition—and this is of the greatest importance—it requires an objective, independent point of view. Fostering this behavior is one of

the most important responsibilities of the Institute and the *only* one which could not logically be duplicated in one or more of the other organizations of accountants.

Summary

Accounting is not merely a contributor, it is an inherent part of a successful industrialized economy. It is not merely a contributor, it is indispensable to a high degree of efficiency in an organization with a complex management problem. The accounting function in the United States is discharged not by one but by many groups of persons whose activities interrelate.

CPAs and their professional organization, the Institute, must help to clarify the appropriate

role of each of the groups participating in the accounting function. They should foster a working partnership of all the accounting groups—through their formal organizations—for purposes of self-improvement as well as of educating others. Further substantial contributions to economic progress can result.

The preceding paragraph suggests one broad long-range objective for the Institute. However, it has not been the purpose of this paper to be exhaustive in listing objectives, but rather to set up a backdrop against which possible ones may be viewed. Enumerating, testing and selecting the essentials for a sound forward program for the Institute is the business at hand for the committee on long-range objectives. It is hard at work on this.

The Place of the CPA in Contemporary Society*

Where did the CPA come from? What is the proper scope of his practice? What exclusive rights can he reasonably claim? How does his work relate to that of others engaged in some phase of the "accounting function" who outnumber him twenty to one?

These and other questions related to the present position and further opportunities of certified public accountants are discussed by the Executive Director of the American Institute of Certified Public Accountants.

This is the second in a series of articles outlining tentative conclusions of the Institute's committee on long-range objectives. The first article, "The Accounting Function in Economic Progress," by Herman W. Bevis, appeared in the August issue. Articles by other members of the committee will be published in subsequent issues.

AMONG the many creative things the late Marquis G. Eaton did while president of the American Institute was to appoint a committee on long-range objectives. "Let's decide where we want to go," he said, "before we waste any more time arguing about how to get there. Unless we can agree on the objectives, discussion of intermediate steps will always bog down in wrangling—

a clash of preconceived, and often half-baked, ideas."

The committee on long-range objectives consists of three men—J. S. Seidman, chairman, Herman W. Bevis, and Robert E. Witschey. These men are quite different from one another in temperament, experience, and attitude. The qualities they have in common are intelligence and objectivity.

When they first came together, they couldn't agree on anything—not even what to put on their original agenda. Now, after two years in which they have held many two-day meetings, they have been able to reach substantial agreement on some important fundamentals.

As a basis for its deliberations, the committee found it necessary to examine the place of accounting in contemporary society. Their thinking along these lines was reflected in the paper by Herman W. Bevis, "The Accounting Function in Economic Progress," which was published in the August issue of THE JOURNAL. The principal conclusions outlined in that paper may be summarized as follows:

1. The accounting function, which includes auditing, deals with the *measurement and communication* of economic data relating to the activities of any type of organization—profit-making or non-profit, private or governmental.

Such measurement and communication may be

*While this article resulted from discussions of the Institute's committee on long-range objectives, and has had the benefit of suggestions from members of the committee, responsibility for the opinions expressed is entirely mine—J.L.C.

internal, within the organization, or external, for the information of:

Banks, stockholders, investors

Suppliers and credit agencies

Labor (for bargaining or to improve employee co-operation)

Customers (notably the U. S. government or state agencies, as in highway construction contracts)

Regulatory bodies

Taxing authorities

Courts

Agencies compiling economic statistics

(This list is illustrative—not all inclusive.)

2. The importance of the accounting function varies among organizations according to the complexity of the management problem, the size of the organization, the emphasis on efficiency, and the extent of interest of outsiders in the enterprise.

3. The accounting function is discharged by three classes of persons—bookkeepers, accountants, and auditors—any or all of whom may be full-time employees of the enterprise, or may be independent contractors engaged on a part-time basis.

Where did the CPA come from?

A review of the historical evolution of accounting supports Mr. Bevis' analysis.

There is evidence that accounting is as old as civilization. Among the earliest human writings are the temple accounts of the Sumerian priests, written about 3000 B.C.

Theirs was, of course, accounting in its most elementary form—simple record-keeping or book-keeping.

As civilization grew more complex, accounting became a technique of internal administration and control.



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Then it became the basis of financial reporting, internal and external.

But for some 4,700 years the accountant was an anonymous type, without any special title, who worked at accounting, at a higher or lower level, with greater or less skill, for the most part as an employee. *Then something new and different appeared.*

Accounting written into the law

The industrial revolution in England in the 18th century greatly intensified the need for aggregations of capital to provide machinery. This led to the invention of the "limited company" in England, which became the modern corporation. From this, in turn, arose the concept of "accountability" of management to stockholders. About the middle of the 19th century accounting in the sense of financial reporting, often called an "account of stewardship," became written into the law. It was recognized that economic affairs were growing in complexity, and therefore accounting and financial reporting were matters requiring expert knowledge. It seemed proper that stockholders should have the protection of an independent, objective review of the management's report on what it had done with their money. The idea of *independent audit* gained general acceptance.

This was, I believe, the first occasion in history when the accountant, acting as an independent auditor, was recognized as accepting *a special responsibility to outsiders apart from the responsibility of the owner or the manager of the business itself*. It was undoubtedly this new responsibility which led to the rapid development, first in Scotland and then in England, of the Institutes of Chartered Accountants. Examinations were conducted to test the competence of those who would become chartered accountants, and ethical principles were developed to strengthen their independence. Here the concepts of *professional competence* and *responsibility* in accounting, as distinguished from technical skill alone, were first given tangible form.

In the latter part of the 19th century, when industrialization of the United States began in earnest, many Scottish and English chartered accountants came to this country on professional business for British investors. Some chartered accountants decided to make their homes here. They helped organize an accounting profession in the United States, with the advantage of several decades of experience in the United Kingdom. The first certified public accountant law was enacted in New York in 1896. It was an American adaptation of the British pattern.

The CPA examinations, and the rules of ethics of the CPA societies, have shown from the beginning that the major concern was to establish a high standard of competence and responsibility for accountants who were holding themselves out as *independent auditors*—that is, accountants who assumed responsibility, apart from that of management itself, for the fairness of management's representations to stockholders or creditors. To put it another way, it seems that the certified public accountant was intended to be a kind of "quasi-judicial accountant," whom the state certified as competent to add *credibility* to financial statements in the eyes of outsiders who had a financial interest in the business. At this point, accounting in the United States was on the way to becoming a *profession*.

What is a profession?

The word profession is very broadly used. Many groups today refer to themselves as professions without much consideration of the precise meaning of the term.

There are many definitions of profession, written with different purposes in mind. For example, the Wage and Hour Law contains such a definition, for a special legislative purpose, which is properly quite broad.

The Commission on Standards of Education and Experience for Certified Public Accountants, in testing the professional status of CPAs, adopted a very rigorous definition derived from the famous Flexner Report on medical education in 1910.

Under this definition, it seems quite clear that certified public accountants in public practice are the only accountants who meet *all* the tests of professional status:

1. They have acquired a body of specialized knowledge in accounting and auditing.
2. They have, for the most part, passed through the recognized educational process for acquiring this knowledge at the colleges and universities.
3. They have passed the Uniform CPA Examination, which constitutes a standard governing admission to the profession.
4. They are subject to a standard of conduct in the form of a code of ethics.
5. They have received formal recognition of status under the state CPA laws through the issuance of their certificates.
6. They have accepted social responsibility in

that, as auditors, they assume an independent responsibility, apart from that of the management of the business whose accounts are under review.

7. In the American Institute of Certified Public Accountants, they have an organization devoted to the advancement of the social obligations of the group.

The formal recognition of status involved in granting the CPA certificate, by state governmental authorities under statutory authorization, is an act involving the exercise of the police power of the state. This is justified only as it contributes to the public welfare. Underlying the exercise of this power by the state is the assumption that it is in the public interest to identify professionally competent and responsible accountants who are offering their services generally to the public, and on whose opinions people may rely in investing, extending credit, or making other financial decisions.

What is the CPA certificate?

I think we are bound to conclude that the certified public accountant certificate is a kind of *license*, rather than a kind of *degree*, as it is often called. To be sure, it is issued only after passage of a two-and-one-half day written examination testing an advanced knowledge of accounting and auditing. But what the certificate actually does is *permit* (license) the CPA to hold himself out as competent to render professional accounting services to the public generally. I do not think it can be argued with much force that the CPA certificate resembles an academic degree, since in most states it is not evidence of formal study of accounting. The CPA certificate is rather a symbol that the holder has satisfied basic requirements—presumably the minimum requirements which the state believes necessary for protection of the public in the circumstances. Thus the CPA certificate resembles a license to practice medicine, or admission to the bar, rather than a Master of Arts or Doctor of Philosophy degree. No such license means that the holder is necessarily qualified to do *every* kind of work in the field of his vocation, nor does it mean necessarily that he has acquired complete mastery of *any* branch of knowledge in that field. For example, a Ph.D. in accounting issued by a university of high standing would probably signify knowledge in a particular field of specialization superior to that of most certified public accountants.

No one would seriously claim that all certified

public accountants are superior to all other accountants. There are undoubtedly noncertified accountants in government, in industry, and in academic circles who may know more about *some* phases of accounting than most certified public accountants, and may know more about *most* phases of accounting than some certified public accountants. But we can fairly say that the CPA is the only accountant who is *accredited* as having a basic knowledge of all phases of the accounting function.

The CPA has demonstrated the basic qualifications for the professional function of adding *credibility* to financial representations—and this requires a comprehensive knowledge of all the underlying accounting functions—record-keeping, administrative accounting, and financial reporting.

The nonpracticing CPA

Does a CPA employed by business or government cease to be a member of the profession? His certificate qualifies him to practice public accounting as a professional man. If he chooses not to exercise that right, but accepts private employment, he does not surrender his professional qualification. He is still recognized as qualified, he may legally enter practice as a CPA whenever he chooses, and he remains as much a member of the profession as anyone else.

Based on this reasoning, the Council of the Institute in April 1958 adopted the following statement:

It is an objective of the Institute to serve as the national organization of certified public accountants in and out of public practice, and to develop and maintain the form of organization best adapted to the needs of all its members.

Implications for the CPA's practice

There is only one function which it can logically be argued that *no one but a CPA* should perform. This function is the *independent* auditing of financial statements and the expression of opinion as to the fairness thereof. (In most states even this function is not yet legally restricted to CPAs, but the Institute believes that in the public interest it eventually should be.)

This does not mean, however, that the CPA's practice should be *confined* to auditing. In qualifying himself to perform this function, the certified public accountant must thoroughly understand bookkeeping, administrative accounting, and the preparation of financial statements, as well as the technique of auditing. He doesn't claim to know

more about every phase of these subjects than many people who are not certified public accountants, but he does have to understand them thoroughly, or he would not be able to perform his unique function of independent auditing leading to a professional opinion.

There is an analogy in the law. Historically one of the basic functions that led to the accreditation of lawyers as a profession was representation of clients in the courts; but the actual practice of lawyers quite properly goes far beyond this essential function.

Since he understands bookkeeping, administrative accounting, financial reporting, and auditing techniques, the CPA is able to help his clients in a multitude of ways—from bookkeeping to management advice—to the extent that his personal abilities and inclinations permit. As an individual, he may specialize in areas of accounting practice far removed from independent auditing. His own peculiar talents or personal preferences may make him accept a position in industry or government rather than continuing his practice. (This is also common among lawyers.) So it is not surprising that more and more we find certified public accountants working in industry and in government side by side with other accountants, sometimes under the direction and supervision of accountants who are not CPAs.

Accountant's work diversified

Likewise, it ceases to be surprising that even in what may be called the "general public practice of accounting"—the offering of accounting services to the public generally—the certified public accountant has no monopoly. He may, if he chooses, and if requested to do so, render bookkeeping services (though there is difference of opinion as to whether this is "professional" work). He may install accounting systems and improve internal control. He may prepare financial statements of all sorts, including tax returns, without expressing any opinion for the use of third parties. He may help clients in budgeting, cost control, and a host of other things. But it is hard to see how certified public accountants can claim exclusive privileges in these fields. Other people are doing this work, too, and everything we know so far indicates that they will continue to do it. Public bookkeepers, noncertified public accountants, management consultants, and lawyers do some of the things that some certified public accountants also do.

The latest census (1957) indicates that there are 376,459 accountants and auditors, and 720,977 bookkeepers in the United States. There are about 58,000 CPAs.

We must face the fact that there is a great deal of accounting work which business and government need to have done which actually does not require the special qualifications of a certified public accountant. Large organizations may have much of this work done by full-time employees. Smaller organizations may have it done by independent practitioners. For some of it CPAs may be best qualified, but some of this work may be done competently by independent contractors who are not qualified as professional accountants. However, it should be clearly understood that such persons have not formally demonstrated the professional competence and responsibility, which are the basis for adding *credibility* to representations.

Furthermore, when the CPA enters the areas of accounting service which he must share with others, he cannot divest himself of his professional and ethical responsibilities. These are part of him wherever he goes—in public bookkeeping, in tax work, in management services, in audits not leading to formal opinions.

CPA title carries credibility

The characteristic of adding *credibility* to financial data is so closely associated with the title of certified public accountant, that the mere presence of his name is likely to make people rely more heavily on, say, a statement clearly described as "prepared from the books without audit," than on the same statement prepared by an accountant without professional qualifications.

It is possible that a CPA would be held to a higher standard of competence and responsibility than a noncertified accountant doing exactly the same work. For instance, a federal court in Baltimore held that auditors employed by a government agency to examine the accounts of credit unions could not be held to as high standards of performance as would be expected of independent CPAs.

We may find, as time goes on, that more will be expected of CPAs in tax work than of others who are permitted to do the same work.

Recognition as a *profession* inevitably carries with it the acceptance of *responsibility*. Undoubtedly one important reason why businessmen engage CPAs is to relieve themselves of a part of the responsibility for their own financial representations. For example, there are court decisions excusing taxpayers from penalties for errors in filing returns in reliance on the advice of CPAs.

General recognition that CPAs assume professional responsibilities which are not imposed upon other accountants should result in increased

demand for CPAs' services in all matters where reliance on the *credibility* of financial data of any kind is an important consideration.

CPAs' relations with other groups

Ideally, the relationships of CPAs with all other accountants, whether they are employed in industry, government, or teaching, or whether they are offering accounting services as independent contractors, should be one of co-operation, not competition.

All parts of the accounting function are closely interrelated and interdependent.

The independent audit leading to a formal opinion—the professional function of adding *credibility* to financial statements—can be performed best, at reasonable cost to the client, and at fees satisfactory to the CPA, where there is sound bookkeeping, good administrative accounting, internal control, and internal auditing.

In tax work and in tax planning, in management advice and management services, the CPA can command the highest fees, and devote his time to the most interesting work, when he is fully exercising the professional functions of adding *credibility* and assuming *responsibility*, which involve interpretation, judgment, and decision-making.

Consequently the individual CPA, and his professional societies, should seek the most friendly relations with bookkeepers, cost accountants, controllers, internal auditors, government accountants, and teachers of accounting. All these areas of specialization in various parts of the accounting function are complementary, not competitive. All the different groups of accountants have something to learn from each other and to teach each other. The economy will be best served if they work closely together, with the least possible friction, duplication or overlap.

The public accountant

There is only one group which presents CPAs with any significant problem. This is the so-called "public accountants."

The problem is twofold: first, the title "public accountant" is so similar to "certified public accountant" that it is confusing; second, the public accountant offers to perform the professional accounting function of adding *credibility* to financial data without having demonstrated professional competence through education, experience, and the passage of technical examinations.

In half the states anyone can assume the title "public accountant," regardless of qualifications. As indicated, the Institute has adopted a policy

looking to the ultimate objective of having the function of independent auditing leading to a professional opinion limited to CPAs. Meanwhile, public accountants presently in practice must be permitted to continue under constitutional guarantees. But no *new* entrants into the field, except CPAs, should be permitted to use the title "public accountant," or add credibility to financial representations. It is recognized that public bookkeeping and tax work will doubtless continue to be done by accountants who are not CPAs.

Where is the CPA going?

It has often been said that accounting is a "tool of management." This suggests that it can be picked up or put down, used or not used, at the discretion of management. I think it is more accurate to say that accounting is inherent in management—and is at the *heart* of management.

Accounting is *there*—it is inescapable. The accounting function can be poorly executed, but it cannot be avoided. When a businessman prices his product or service in the hope of making a profit, he is mentally accounting for his costs and estimating his revenues. When he makes out his own income tax return, he is preparing a financial statement. When he tells his banker what he owns and owes he is engaged in financial reporting.

It is said that a man who is his own lawyer has a fool for a client. Perhaps the same is true of a man who is his own accountant.

In my opinion, every business which expects to survive in the competitive environment, every government unit, every nonprofit institution, will soon find it necessary to have adequate financial records, adequate administrative accounting controls, including budgets and cost systems—no matter how simple—and an independent audit and

certification of financial statements by certified public accountants. Enterprises subject to income tax in addition need adequate accounting in tax planning, determining taxable income, and in preparing, explaining, and defending tax returns.

The outlook for the CPA could hardly be more encouraging.

He may look forward to having eventually the *exclusive* right to audit and certify financial statements. But, since his professional training gives him a comprehensive knowledge of the accounting function as a whole, he may specialize in any areas which interest him, either as a practitioner or in private employment.

As a practitioner, his assumption of *professional responsibility* in any phase of accounting work he undertakes will give him a great advantage when businessmen need information or advice on which they must rely.

The importance of the CPA's role in the efficient conduct of our economy is rapidly being recognized more widely than some of us realize.

I can only conclude that the CPA's opportunity for useful, challenging, and rewarding work is virtually unlimited. He has extraordinary economic mobility, and a wide variety of choices in the most effective use of his individual talents. He is on the threshold of general acceptance and recognition as a true professional and an indispensable member of our society.

The economic evolution which brought CPAs into being is still going on. The forces which have brought the accounting function into prominence seem to be gathering strength. In order to take advantage of the tremendous opportunities for service which lie ahead, it seems to me urgently desirable that CPAs clearly discern their proper place in our society, and lose no time in preparing themselves for the responsibilities which lie ahead.

By Robert E. Witschey

The Accounting Function for Small Business

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The Accounting Function for Small Business*

This is the third of four articles resulting from the deliberations of the American Institute's committee on long-range objectives. The first, by Herman Bevis, appeared in the August issue of the Journal, and the second, by executive director John L. Carey, in September. A final article, by chairman J. S. Seidman, will be published in an early issue.

The prosperity of small business is clearly one of the most important elements of modern economic society, and better accounting is a vital factor in small business survival. Mr. Witschey documents the statement that poor records and inadequate financial planning are among the chief causes of small business failure. He outlines the opportunities and responsibilities of the independent accountant in this field, and discusses such related problems as specialization, referrals, and extension of accountants' services to management.

*During the discussions of the Committee on Long-Range Objectives, I have tried to keep in mind the potential impact of future plans on the practices of CPAs in local offices. This same concern is frequently expressed by my fellow members, J. S. Seidman and Herman W. Bevis, and by John L. Carey, AICPA Executive Director, who participates in all of the Committee's deliberations. This article has been subjected to their scrutiny and criticism. While responsibility for the ideas expressed is mine, the article is, in a very real sense, a committee effort.

Great economic and social forces flow with a tidal sweep over communities that are only half conscious of that which has befallen them. Wise statesmen are those who foresee what time is thus bringing and endeavor to shape institutions and to mould men's thoughts and purpose in accordance with the change that is silently surrounding them.
—John Morley, *Life of Richard Cobden*, 1882

THIS is an age so unlike anything the world has known before that it is doubtful whether any one person comprehends just what is happening to our economic system and what its future course will be. Never have social and economic developments moved with such speed—a speed that has transformed evolutionary processes into revolutionary ones.

This is the era when men have learned to fly—to split atoms—to launch moons into orbit. This is the era when medical science has discovered how to transfer blood from one individual to another—to manufacture new parts for damaged organs. This is the era when political democracy has become conscious of a social obligation—when government spends one of every four dollars spent. This is the era of tremendous industrial complexes—of the beginning, with high hopes, of a third of a million new businesses annually.

Scientific discovery sparks amazing new accomplishments in industry and business. Research programs continue to grow so rapidly it is difficult

even to conjecture what new discoveries will come from the laboratories of tomorrow. The only certainty is that they *will* come, bringing new products, new industries, and new problems to be solved. It is in this climate of kaleidoscopic economic shifts of a world in scientific, social and economic revolution that the smaller businesses of the nation must struggle to survive.

Importance of small business

There are an estimated 4,300,000 separate entities now engaged in conducting business on the American scene. Of these, over 4,000,000—between 95 and 98 per cent—are small as measured by the standards of the Small Business Administration.¹ This same agency estimates that small business accounts for at least 35 per cent of the total dollar volume of sales. The general accuracy of some of these estimates is borne out by studies made annually by Dun & Bradstreet. At the close of 1956 their reference book listed about 2,650,000 of the businesses in the United States. Half of these had a stated net worth under \$10,000. Only

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1. The Small Business Administration defines a small business as follows: A wholesaler with annual sales of less than \$5,000,000; a retailer or dealer in services with a volume of less than \$1,000,000; a construction company whose annual receipts for the preceding three years have been less than \$5,000,000; a manufacturer with 250 or fewer employees. Manufacturers with between 250 and 1,000 employees may be classed as large or small depending on the type of activity.

This classification is an arbitrary one and therefore has some limitations. The concept varies in different kinds of business. Some businesses which would be classified as "small" by the above standards may be "big" in organization, operation and finance. There are some other typical characteristics which assist in making the distinction. For example, the area of small business operation is generally local, ownership is held by comparatively few individuals, capital is supplied by a small group, and usually there is a close identification between ownership and management.



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five per cent were worth over \$125,000. Each new year brings a net increase of about 50,000 to the business population. The vast majority are small. An estimated increase of a million new businesses—mostly small ones—during the next twenty years seems entirely realistic.

These statistics should dispel any notion that the present day is an economy of "big business." This erroneous idea may arise from the obvious size of publicly owned companies, or it may arise from considering a particular type of industry as "big business" although the industry may, in fact, be made up of a large number of small businesses. This is a nation of small business people and, if the record of past developments means anything, it will continue as such for a long while. The economic welfare of seven or eight million present owners, and even more millions of employees, will be determined almost entirely by the extent to which small business can survive and prosper in a continuously churning and changing economic system. These small businesses now make, and will continue in the foreseeable future to make, a substantial contribution to the flexibility and underlying soundness of the economy. They are, and will continue to be, responsible to a considerable degree for the prosperity of the nation as they produce and sell merchandise and services in 50,000 communities across the land. It is impossible, therefore, to think intelligently about the American economy without giving full consideration to small business and the problems it must solve in order to make its full contribution to the economic well-being of the nation. The importance of small business to the economy is becoming increasingly better recognized. As an example, this year the Small Business Administration, originally created as a temporary federal agency in 1953 to help smaller businesses obtain credit, was made a permanent independent agency. The 85th congress took further note of the problems of small business by passing a Small Business Investment Act which will facilitate the creation of local investment companies whose purpose will be to provide long-term and equity capital to local small businesses. Additionally, the Small Business Tax Revision Act of 1958 is geared specifically to assist small business in several ways including: allowing faster tax write-offs on new equipment; extension of the period in which losses may be carried back; extension to ten years of the time in which to pay estate taxes on a business held by a few owners; an increased amount of earnings which may be retained in the business without danger of severe penalties; and preferential treatment of losses on stock in small companies to encourage investment in such companies. This

same concern for small business health is evidenced in a variety of ways by many peoples and organizations who are concerned with the economic health of business generally.

Problems of small business

To state that the business population is increasing at the rate of about 50,000 small businesses annually is to present only part of the true picture. Actually, there are between 350,000 and 400,000 new businesses started annually. Unfortunately, from 300,000 to 350,000 businesses will discontinue operations in the same period—many of them under disastrous circumstances. Nearly 14,000 of these will be involved in court proceedings or voluntary actions resulting in losses to creditors, and most of them will be businesses with liabilities of less than \$25,000. These can be tabulated. Less easily counted are the many thousands of dissolutions that result in little or no loss to creditors but do result in the owner-manager losing his capital accumulation of a lifetime. Still less easily counted are the vast numbers of those where the tolerance between income and costs has become so narrow the owner-manager can barely subsist on the dwindling fruits of his endeavors, or where the business is operating on a plateau of "subsistence management"—drifting from day to day with no plans for the future.

Reasons for failures

The many failures and discontinuances emphasize the drastic effects of the wear and tear of a dynamic economy on management. They provide a measure of the vulnerability of small business to the hazards of trying to exist and prosper in a highly complex, competitive society. These are so numerous as to be of serious concern to everyone. Even more serious is the logical assumption that the same causative factors that spell disaster for many businesses each year exist in varying degrees in most or all of the small businesses that manage to survive. Some estimates place the number of businesses in which uninformed management is a serious problem as high as 75 per cent. The same condition will be inherent in the million new businesses which will be added to the business population in the next twenty years unless ways are found to minimize or eliminate them. So long as they exist, small business cannot adequately fill the important place in the economy which is its potential.

In an effort to get at the causes of business failures (and, by implication, the reasons most small businesses are not as successful as they

should be), Dun & Bradstreet makes an annual detailed study of such failures. These studies are based on opinions of informed creditors and on information contained in the Dun & Bradstreet credit reports. Briefly summarized, the reasons given for all failures, year after year, with only slight variations, are:

1. Incompetence	41.4%
2. Unbalanced experience ²	19.2
3. Lack of managerial experience	18.8
4. Lack of experience in the line	12.8
5. Neglect	3.6
6. Fraud	1.7
Total management causes	97.5%
7. Disaster	1.2
8. Reason unknown	1.3
	100.0%

Experience has shown that management weaknesses have been exposed most frequently in the lack, or the inadequate development, of sound business policies and procedures. More specifically, the weaknesses usually have been evidenced by one or more of the following:

1. Inadequate records.
2. Inaccurate information as to costs.
3. Insufficient long-term or equity capital.
4. Failure to budget expenditures.
5. Excessive operating costs.
6. Little or no internal control or check.
7. Little or no tax planning.
8. Faulty purchasing practices.
9. Faulty sales policies.
10. Lack of inventory controls.
11. Lack of an effective credit policy.
12. Excessive investment in plant and equipment.

Of equal significance to the Dun & Bradstreet studies is a study made by the Bureau of Business Research at the University of Pittsburgh.³ This particular investigation was made to determine, scientifically, the causes of bankruptcy in the area of small manufacturing. As far as is known, this study represents the first effort to make any kind of controlled test of successful and unsuccessful companies by systematic grading against a set of management principles. Ten companies that had

2. Experience limited to sales, production, or one management function only.
3. *Success and Failure in Small Manufacturing*, by A. M. Woodruff and T. G. Alexander, University of Pittsburgh Press, 1958.

been reorganized or had gone bankrupt were compared with a group of ten companies that had been highly successful in similar lines. All of the firms that failed were in businesses in which the successful firms, otherwise comparable, made money—at the same time and in the same area. The failures all were victims of one or a combination of eighteen *specific* and *avoidable* types of management error, clearly discernible from the vantage point of hindsight, which the successful firms *had* avoided. The three kinds of management error that showed up repeatedly were:

1. Poor financial planning because of inadequate records or a failure to use the records available.
2. Poor sales management including deficient product planning and market analysis.
3. Poor general administration culminating in added expenses not offset by additional revenues.

The companies studied were scored on the basis of how well they measured up to ten basic principles of sound management. The scoring is reflected in the chart below.

Obviously the percentages shown should not be considered entirely conclusive because of the limited number of firms studied. Nevertheless, they do indicate some significant aspects of successful management. For one thing, in the area of such essentials of conducting a business as sound organization, balanced finances, sound labor relations, and effective plant and equipment, the firms which failed scored reasonably well. The inference is that strength in these areas cannot offset the effects of poor records.

This point is emphasized by some of the findings made during the course of the examination. For example, there is a general feeling that a shortage of working capital is the underlying reason for most bankruptcies. There is a strong implication in the report that this hypothesis is not true. The

case histories themselves lead to the conclusion that shortage of working capital, although present in almost all bankruptcies, is symptomatic of the inadequacy of management, and not the basic cause. The unsuccessful companies did not suffer from a shortage of working capital until their financial collapse was critically near. The basic weaknesses were at work, termite fashion, for months and years before their consequences were revealed. The report concludes that a careful management appraisal of financial reports, while favorable conditions still existed, would have provided forewarning of the dangers ahead.

The study revealed, also, that the frequently expressed thought that small business cannot compete successfully against big business is erroneous. It found that general relations between small and large firms were excellent. It pointed out the greater flexibility of small business as well as other advantages which small business enjoys. None of the unsuccessful firms failed because of size.

None of the unsuccessful firms had really good records. Consequently management lacked all of the essential navigational aids necessary to guide the business through the reefs and shoals. On the other hand, all the successful companies had well-informed managements, kept complete records, and made use of them.

The study indicated that among the companies which failed there were violations of more than one of the basic principles of good management, but the most prevailing single management deficiency was poor records, which, in turn, led to inadequate cost standards and uninformed management, and thence to poor financial planning and disaster. The study left little doubt that inadequate and misleading financial records cause more trouble than any other error of management. Nowhere was there any evidence of failure because of a *breakdown of the accounting function*. The difficulties arose because of *management's failure to use accounting*. There was, in fact, real

	SUCCESSFUL			UNSUCCESSFUL		
	Superior	Average	Poor	Superior	Average	Poor
1. Simple adequate records	81%	19%			27%	73%
2. Cost and performance standards	64	36			22	78
3. Informed management	81	19			26	74
4. Sound organization	70	28	2%		60	40
5. Balanced finances	81	14	5	2%	53	45
6. Proper sales organization	78	22			34	66
7. Sound labor relations	58	31	11		81	19
8. Effective plant and equipment	74	26		8	60	32
9. Research and product development	72	23	5		28	72
10. Community and industry relations	73	27			35	65

evidence that where new management established adequate record-keeping the change from loss to profit was sometimes dramatic. This would indicate that business success is *directly related* to the full use of adequate records.

Recognition of need for accounting

The foregoing studies provide ample evidence that today's executive, if he is to be successful, must rely heavily upon a variety of accounting and statistical data to formulate policy, establish controls and guide the activities for which he is responsible. High-speed production, wider-spread markets, changing credit policies and a host of other matters require quick decisions. These decisions will be the result of guesswork or they will be founded on fact. In order to have the necessary facts available for analysis by a busy man at the right time, the records must be complete, concise, and ready when needed.

The evidence indicates that the majority of small businesses do not have adequate records to provide this kind of data. The importance attributed to the accounting function by small-business management ranges all the way from a full knowledge of its essentiality to a complete lack of such recognition. To the extent that the usefulness of accounting is unrecognized, small business is failing to make its full contribution to the economy. Conversely, if the uses of accounting were fully recognized by the management of small business, the impact on the economy would be significant.

This raises a question: If accounting is so useful, as has been proven again and again—if it is so essential, as all studies prove—why is this knowledge still unrecognized by a large part of small business management? There appear to be several factors involved in the answer. First, of course, is the fact that it is only in comparatively recent years that the operation of a small business has become complex. There was very little record-keeping of any sort by small business until certain external pressures compelled management to keep some formal records.

The first of these external pressures was the federal income tax law, which was, and may still be, the principal reason most small businesses keep records. This is not to say that accounting in small businesses would not eventually have enjoyed a substantial growth without the stimulus of tax laws. It is now clear that its development was inevitable on the basis of its essentiality to the survival of a large segment of the business community. In more recent years there has been a growing demand for more informative reports

from bankers and suppliers. These groups are no longer interested in an ordinary financial statement but are more and more concerned with the kinds of data that reflect profit trends, effectiveness of management, and ability to survive in a rapidly changing economy.

While such external pressures as those noted have been among the primary motives for record-keeping by small businesses, they do not, of themselves, encourage a full use of accounting. The natural tendency is to keep just enough records to provide the required data and no more. With this approach, small business management has often regarded record-keeping as a necessary evil rather than a positive aid.

Lack of uniformity

Another factor that has contributed to the failure of management to rely on accounting has been the lack of uniformity and standards of performance of those who have been providing accounting service to small business. In fact, many of these have failed to recognize and appreciate the uses of accounting. This is not at all surprising, since there is such a wide variety of talents involved in the record-keeping processes of small business. These talents range from those of employees with little knowledge of the significance of their work, to bookkeepers and accountants with a considerable degree of technical competence. Or the work may be performed on a part-time basis by independent contractors ranging in ability from bookkeepers to practicing CPAs. With such a conglomerate group performing the accounting function it is little wonder that the quality of record-keeping in small businesses varies so widely. In the study of success and failure in small manufacturing mentioned above, the following comment was made:⁴

One of the urgent needs in the field of small business is in the matter of simple adequate records. One of the urgent educational needs is more people better trained to handle such records. Some firms hire bookkeepers and expect them to function as accountants; others try to do their own accounting along with everything else. There appears to be a shortage of adequately trained individuals in this field.

As a consequence, the most important need for records—their indispensable role in effective management—has been obscured by the external demand for accounting data, and to a considerable extent by the failure of those who have been performing the accounting to point out to manage-

4. *Ibid*, p. 120.

ment the real importance of records and the aids they provide. One small businessman has likened present-day management of a business to the practice of medicine. In the early days, the physician relied largely upon observation of his patient for diagnosis and therapy; now he uses records and reports, *often prepared for him by technicians*, in making his decisions. The successful small business manager of the future will operate in the same way. Experience is proving that there is no adequate method of managing a business—even a very small one—without considerable reliance on adequate records and reports. It can be reasonably expected, then, that the demand will come.

Something of this future development begins now to take shape. Most managers realize that they must have adequate records for tax purposes; they recognize to a lesser degree the need for records to provide data for the use of bankers; they are only just beginning to recognize the importance of accounting to the controllership function. But this dawning knowledge is beginning to develop rapidly—speeded up in substantial measure by the efforts of the American Institute of Certified Public Accountants through its public information service and its work with trade and professional associations in their efforts to raise the quality of accounting among the members of those groups. Also, the intensive efforts of the Small Business Administration and other groups are beginning to show their effect. This raises the question—will those who provide accounting services for small business be able to cope with the trend?

Responsibilities of the CPA

In the light of the foregoing, CPAs must re-examine their position (as indeed they must always continue to do) to determine not only whether or not their techniques and procedures are adequate for their particular historical part in the accounting function, but also what their responsibility may be to see to it that the *whole of the accounting function operates at its maximum effectiveness*. This general question, when related to small business, involves such specific questions as: To what extent, if any, should CPAs take the leadership in seeing to it that small business has sufficient records, both in quality and depth? To what extent, if any, should they provide the leadership in seeing to it that this service is performed in accordance with high identifiable standards? What is their responsibility in the matter of informing management of the essential nature of accounting to sound management? To what extent are they responsible for seeing to it

that external pressures for economic data do not distort the soundness and purpose of good accounting?

The answers to these and other questions are of vital importance to small business. Considerable assistance in answering them can be gained, and a sounder future course of action for CPAs determined, if the accounting needs of small business, as previously outlined, are collated with the reasoning suggested in two recently published articles. In the first of these, Herman W. Bevis examined the purpose and relative importance of the whole of the accounting function.⁵ He pointed out, among other things, that each part of the function, from bookkeeping of the most elementary sort to auditing at the highest professional level, is important and not incidental. John L. Carey, Executive Director of AICPA, in his analysis of the historical development of accounting, shows that the CPA came into existence because of increasingly complex demands on the professional accounting function, and that his greatest usefulness is in dealing with the professional aspects of accountancy.⁶ These two points are complementary—the first pointing out the importance of record-keeping at the most elementary level, and the second carrying an implication that the CPA's greatest usefulness lies in the more complex areas of the accounting function.

The public image

There are those who believe that CPAs should restrict their activities solely to auditing, and that their professional organizations should concern themselves only with the problems of CPAs in public practice. On the other hand, there are those who believe that CPAs are expected to assume special responsibilities for leadership and enlightenment in the whole national community, in the area where their profession gives them special competence. They believe that CPAs have some sort of responsibility, at least as the public understands it, for the activities and claims of all those who participate in the accounting function. Why? Because in the public mind CPAs are the leaders of a generic group—"the accountants."

This reasoning should not be peremptorily brushed aside, for accounting is not self-serving. It can justify its existence only as it assembles, examines and reports economic data in a manner

5. "The Accounting Function in Economic Progress," by Herman W. Bevis, *THE JOURNAL OF ACCOUNTANCY*, August, 1958.

6. "The Place of the CPA in Contemporary Society," by John L. Carey, *THE JOURNAL OF ACCOUNTANCY*, September, 1958.

acceptable in its time, and most useful to the economy it serves. That economy is a complex one, characterized by dynamic originality and change. Accounting must accommodate itself to, and serve, that kind of economy. It must recognize the needs of *all types* of users of the accounting function—and it must have leadership and direction.

If this latter philosophy is valid, as many believe, then it becomes clearer how professional accounting can best adapt itself to the future needs of small business. While predictions for the future may be hazardous, some positive suggestions as to broad future patterns should provide a stimulus to the thinking of professional minds which will result in sound future plans, even though the specific predictions may be proved wrong.

The trends indicated give reason to believe that CPAs will take a full measure of responsibility for increased recognition of the usefulness of accounting in the area of small business. This thought can be better understood by examining present and future needs of small business in specific areas of the accounting function, and the CPA's probable future part in filling that need. Some of the major areas for serving small business, and how this service will probably be performed in the future are outlined below.

Bookkeeping. The first need is, of course, for adequate records, and then for a recognition of their essential nature to the survival of a small business. As was indicated earlier, perhaps as many as 75 per cent, or three million of the businesses presently in existence, need additional record-keeping service in varying degrees. To this figure must be added the estimated one million net new businesses in the next 20 years. If substantial uniformity and greatly improved quality of record-keeping can be accomplished, the accounting function at every level would be upgraded. Why? Because as bookkeeping (the process for accumulating the economic data which the CPA uses to make his interpretations and exercise his judgments, and on which he expresses his opinions) is upgraded, both in quality and quantity, the whole accounting function, including professional accounting as it relates to small business, should be improved accordingly, to the end that business managements and the economy

At this point, CPAs must make some serious decisions as to how the small-business community can best be served in its record-keeping. There are two alternatives. The first is for CPAs to attempt to do all accounting work just as lawyers do all legal work. The second alternative is for

CPAs to devote themselves to the demands of those parts of the function requiring the greatest degree of judgment, competence, and responsibility, while maintaining a concern for the technicians, as in the case of medicine. All the evidence indicates that the public interest will be best served if CPAs pursue the latter course. Concurrent with a fast-growing recognition of the need for good records will be an equally rapid recognition of the importance of interpretation and guidance from the facts contained in those records. This development will also be accompanied by a widely increased demand for "attested" financial statements. It is quite probable that the supply of CPAs will be no more than adequate to fill the need for the latter services. This is not to say that CPAs will withdraw their concern from the bookkeeping function, but it seems clear that they will withdraw more and more from *direct* participation in that phase of public practice.

A shift in function

Who, then, will provide this service to the millions of small businesses? Bookkeeping, satisfactorily performed, is of vital importance and requires a high order of technical competence. Nonetheless, it does not require the same high order of professional judgment as the auditing and analytical-interpretive functions. For this reason, it is quite likely that there will be a trend toward the development of a body of qualified technicians to perform the more routine work of bookkeeping to fill the increasing need for better basic economic data. Much of this bookkeeping will be done internally by one-man or small staffs. But much of it will be done externally by independent contractors. This development will probably take the direction of public bookkeepers with recognized standards of technical proficiency. Also, there is a growing trend toward the organization of data processing centers to accumulate basic data. Many CPAs do not recognize the participation and significance of the work of technicians who have a substantial part in the accumulation of economic data. Their work is important, too, and requires an ever higher degree of technical competence.

But just as the medical profession had to recognize its responsibilities for the general health of the whole community, and therefore had to interest itself in who became registered nurses and by what standards, it may logically be argued that professional accounting must interest itself in the economic welfare of the business community and therefore must be concerned with who becomes public bookkeepers and by what stand-

ards. At the inception of this new development, CPAs have an excellent opportunity to establish the kind of relationship that should result in a co-operative effort to help small business. Thus, the CPA could call in recognized technicians to perform the routine accumulation of data, under direction of the CPA, and then he would take over the more professional parts of the engagement. Such a development, if properly organized, should result in greatly improved record-keeping, both in quality and depth, among small businesses, and, as a direct consequence, more use of the information provided.

Auditing. A second trend that seems quite apparent is a substantial expansion in the amount of auditing service to be performed for small business. Although the requirement for the independent review of financial statements originally grew out of the needs of absentee owners, the increase in numbers of audited reports from small businesses is gaining its initial impetus from the requirements of bankers and other credit agencies. The increasing interest reflected in the literature of the many banker's organizations for reports attested by CPAs is ample evidence that the trend will grow. But CPAs cannot properly confine the range of their thinking solely to this apparent trend. Potential future developments must also be considered in making long-range plans for the improvement of accounting for small business. There are several potential areas for development of audited reports that ought to be considered.

1. The accounting function would be best served if, eventually, an attested financial statement imparted credibility to the income tax return. At present, this is not the case, and as a result the rules of taxing bodies tend to have an unsound influence on the record keeping of small business to the extent that those rules are not in accordance with sound accounting principles, and such instances are many and significant.⁷ Where income tax rules and sound accounting clash, the tax rules are likely to be adopted for accounting as well as tax purposes, especially in small businesses, simply because it is impracticable to maintain two sets of records. This has had a detrimental effect on the thinking of many small business managers, as the real facts have been obscured by the application of some of the tax rules.

This is not solely a problem of small business. Also involved are dangers of undue influence,

control or policing of accounting thought and technique by governmental authority such as the Securities and Exchange Commission, Military Audit Agencies, Public Service Commissions and others. CPAs should be most concerned with the extent to which the public interest is affected by governmental rules. If this concern is positively expressed, it seems quite possible that the requirements of regulatory and taxing bodies will, in the future, come to be more consistent with generally accepted accounting principles.

2. A second potential area from which a wider need for audited financial statements for small business may well come is the current experiments in providing equity capital. One of the major problems of small business is its difficulty in obtaining such capital. Since the demand exists, private enterprise will find ways of making such capital available. The development of corporations to provide long-term and equity capital should now be accelerated by the passage of the Small Business Investment Act of 1958, which encourages the formation of local companies to finance small business. Local groups of ten or more people can form such an organization, and can, by investing a minimum of \$150,000, receive a like amount from the Small Business Administration in return for subordinated debentures. A few such companies have already been formed. It would seem likely that they will require audited financial statements from the small businesses who will make applications to them.

3. A third potential source of increased audit reports may well develop in the field of credit reporting. One reporting agency lists about 2½ million businesses and establishes credit ratings for those listings. An unknown number of suppliers and creditors rely on the validity of these reports. The question has often been raised as to whether or not the public interest is not sufficiently affected as to make it important that such reports be independently reviewed.

Management Services. A third area of service that is beginning to grow in accounting for small business, is that now usually styled "management services." The importance of this "controllership" function to small business is only beginning to be recognized. In a larger business, the controller and his staff bring a wide variety of skills and techniques to the many problems of management. The competitive small business needs the same talents, never has all of them on its internal staff, and needs them only on a part-time basis. The void, logically, should be filled by professionally

7. For a fuller discussion see "Taxes: Friend or Foe," by J. S. Seidman, *THE JOURNAL OF ACCOUNTANCY*, June, 1955.

competent people. This kind of service will be of such significance to the millions of small businesses that the organized professional must take the initiative in developing professional standards and procedures for the accumulation of much of the data necessary to make intelligent decisions in such areas as budgeting, adequate and properly balanced financing, properly balanced financial ratios, proper operating ratios, measurement of personnel productivity, marketing, procurement, production, office procedures, internal control, taxation and many others. Small business will be able to flourish in a period of increasingly skillful management only if it has available—along with other services—broad professional accounting service.

It appears then, that the future trend for professional public practice of accounting in local offices is (1) a gradual withdrawal from *direct* participation in the public bookkeeping area while still retaining a concern, and providing leadership for, improved standards; (2) an increased amount of time devoted to auditing; and (3) a rapid development of professional accounting to fill the vitally needed controllership function for small business. The general effect should be a much wider recognition of the usefulness of the accounting function, a correspondingly-increased demand for its service, and a general increase in the contribution of small business to the economy.

Specialization. How will these trends affect the profession? One of the more obvious effects will be increasing specialization.⁸ The rapidly increasing variety of uses for economic data naturally splits accounting into many parts. The breadth and complexity of the field have become such that no one CPA can any longer hope to remain expert in all areas. The era of specialization is upon us, and should be welcomed in the interest of making professional accounting most useful to the economic welfare of small business. Obviously this trend, as it develops, will create a wide variety of problems that need long-range thinking *now*.

It is quite likely that the trend will follow the pattern of medicine in the sense that the general practitioner will remain the solid backbone of professional accounting. The general practitioner must continue building his working knowledge of new techniques in the same way a general medical practitioner has a working knowledge of the whole field of medicine—usually able to diag-

nose the ailment and usually able to correct it—but knowing also when it is desirable for the best interests of his patient to call in a specialist.

Accounting specialists

On the other hand, as the need grows for special knowledge in specific areas, more CPAs will restrict their practice to specific parts of accounting in which they have an interest. Thus we may expect to find accountants restricting themselves to any one or more of such areas of accounting as those dealing with taxation, rate-making and regulatory bodies, budgeting and forecasting, estate planning, production—marketing ratios and relationships, and other management services. Further specialization within these areas might logically be expected, i.e., special areas in taxation, reporting for publicly owned companies, reporting problems of small business and so on.

The development of a “general practice—specialist” concept raises a whole host of new questions for professional accounting thought and long-range planning. First, of course, is the question, shall the specialist in accounting be recognized as in medicine, or remain anonymous as in law? If he is identified, how is his specialty acknowledged? By specialized courses in school with special degrees, as in engineering? By special examination and accreditation by the professional society, as in medicine? By state-administered processes, as in the case of the CPA certificate? There are many other questions. What machinery is best to aid the CPA in dealing with referrals? What new ethical considerations are involved? How is the small business manager educated to the importance of referring his special problems to an accredited specialist? Nor is this problem solely one of working with accounting specialists. The general problems of relations with attorneys, insurance specialists, engineers and others must be worked out to the best interests of the business served.

Developing educational programs

There will be other problems not yet seen. But rather than trust to an accidental and unguided result, the profession should face them and seek to provide the best answers. The beginning should be in developing the educational and research programs to match them with the era of general practices—specialization that is upon us. Certainly a substantial part of that program should be geared to serving small business. Why? For one thing, large business entities already have a variety of people not only to solve internally many

8. Specialization as used here refers to specialization in its functional aspects rather than specialization by industry. The latter is considered general practice, although restricted to specific types of business.

of their special problems, but to do research on new ones. Also readily available to them are the specialized skills in the larger professional accounting units. The importance of this same kind of skill to the survival of small business has already been noted. But this need is neither yet well recognized nor filled to any great extent. Thus the education program, to be effective, ought to stem from a broadened, continuous research program in the problems of small business. It, ought to provide specific and continuous guidance to general practitioners in all areas of professional accounting for small business. Additionally, of course, it should provide for the requirements of the specialists.

The role of small business is a vital one and

all indications are that it can continue to fill an important place in the economy. To what extent it will contribute to the economy will depend on how well its management can adapt itself to rapidly changing times. Survival will depend almost entirely on the extent to which management recognizes that it must rely on good accounting for guidance. This places on CPAs a serious responsibility—a responsibility for seeing to it that adequate record-keeping of high and uniform quality is made available, and that the results are interpreted and presented in the most useful way. One of the most urgent tasks of organized CPAs is to think and plan for the future, to the end that small business may realize its full potential in serving the economy.

What is the Future of the Accounting Profession?

The fourth and concluding article in the series from the American Institute's committee on long-range objectives asks many searching questions about the future of the accounting profession.

The formulation of accounting principles, accounting practice, and accountants' organizations may all be expected to undergo substantial changes in the next twenty years. The committee has suggested policies for dealing with some of the new problems which may be anticipated, but in this article the chairman makes it clear that far more questions remain to be answered.

WHEN the late Marquis G. Eaton was president of the Institute, he posed an intriguing question: "Where do we want accounting to be in twenty years?" He was prompted by a very down-to-earth purpose. His idea was that to know objectives is to know what day-to-day decisions and policies to make in order to get there.

Prime Minister Nehru of India cast the idea in this light: "Long-term objective gives a true perspective. Without it, short-term planning is of little avail and will lead us into blind alleys."

President Eaton set up a three-man long-range

objectives committee.* Three articles recently appeared in THE JOURNAL OF ACCOUNTANCY written by people connected with the committee. These articles X-rayed accounting life both from the inside looking out and the inside looking in.

Herman W. Bevis, in the August 1958 issue, explored the nature and significance of the accounting function. He made a number of fundamental points: The accounting function includes bookkeeping, accounting, and auditing. The accounting function plays an integral part in economic progress. A high degree of responsibility and affinity attaches to all those engaged in the accounting function, whether in industry, government, or public practice.

John L. Carey, in the September 1958 issue, put a penetrating spotlight on the role of the CPA. He traced the economic forces that led to evolution of the certified public accountant as an accredited professional practitioner. He cautioned that CPAs do not constitute the entire accounting fraternity; and that non-CPAs have, on their merits, attained an important position in discharge of the accounting function. He concluded that the public is best served through the co-operation of all members of the accounting family.

Robert E. Witschey, in the December 1958 issue,

* It has been my good fortune to be part of the triumvirate. The three of us have had a fascinating adventure in accounting outer space. My orbital colleagues are Herman W. Bevis and Robert E. Witschey. (Recently, Robert M. Trueblood has been added.) None of us could really get off the ground without the propulsion from John L. Carey, the Institute's executive director. All of them have helped immeasurably in the formulation of this article. However, the article is a personal, not a committee, document.

focused attention on the interlink of the accounting function with the economic progress of small business. He demonstrated the high degree of fatality experienced by small business whenever management did not have reliable accounting information or was oblivious to the need for it. He summoned the practicing CPA to leadership in helping to correct this blight on small business survival.

These three articles provoke many deep-seated, tantalizing questions for the future of accounting and accounting practitioners. Tackling these questions is part of the work of the long-range objectives committee. Some of the questions are presented here not only to promote a general awareness of the problems, but also, and more important, *to elicit views from people outside the committee.*

Each question in itself is quite a mouthful. Together they could cause indigestion. They do show how formidable and kaleidoscopic is the task of the committee.

Some questions duplicate or conflict with others. Some questions may, right now, create shock or resentment just by being asked. But twenty years from today those same questions may be dull, prosaic, and behind the times.

Throughout, the core of the problem is: Where should accounting find itself twenty years from today, and how is it to get there? Everything should be considered from the standpoint of the public interest, as distinguished from any private advantage to the CPA.

Accounting principles

Today, CPAs alone are pretty much the high priests of accounting principles. In twenty years, will the users of accounting also be part of the



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hierarchy? Will accounting be endowed with such social significance that the public will want to participate in the formulation? Will government and the courts also claim an "in"? Will the CPAs welcome a summit conference of that sort, or will they insist that the development of accounting principles is the exclusive province of the accountant?

Will the postulates that are sacrosanct in the bible of accounting today be heretical twenty years from today? For example, will a vastly changed economic atmosphere, and the inroads of inflation, bring up for inquisition such a venerable member of the accounting church as historical costs?

Will accounting principles permit such wide alternatives as are now common, or will the quest for certainty, and an emphasis on uniformity and conformity, narrow or even eliminate the flexibilities?

Will the expression "generally accepted accounting principles" have deeper roots and more concrete means of identification than is true today? Will regulatory bodies seek to conform their regulations to generally accepted accounting principles or, as is sometimes the case today, will the converse be true?

Scope of work

The public utilizes the services of the CPA today in many fields because the CPA has demonstrated special competence and made constructive contributions in those fields. In the next twenty years, will the area under CPA cultivation contract or expand? For example, will the practicing CPA experience a squeeze play, or do the squeezing, on two fronts—taxes and management services?

In taxes, will others develop such competence as to narrow his activities, or even oust him? Or, will the position of the CPA, because of superior capabilities, be so solidified that he will experience expansion on the tax front? Will his "certificate" go with tax returns, just as it now goes with audit reports? Will returns with unqualified certificates be accepted as correct? Will the CPA be retained by the government to audit returns of taxpayers?

If these things do come about in taxes, will the CPA gain stature, or will he be crushed by the burden of applying to taxes the same attitude of independence and objectivity now expected of him in audit engagements?

By the same token, will management consultants take over in such areas as internal control, budgets, costs? Or, will it be the management consultants who claim foul, and accuse the CPA of

invading "their" territory, when he undertakes market surveys, production control, operations research?

Will fields relatively uncultivated at present become, in twenty years, green pastures for the CPA? Will audits by CPAs of banks, railroads, insurance companies, labor unions, and audits of and for government agencies, be standard equipment?

Will brand new crops be harvested? Will the CPA act as receiver or liquidator? Will the CPA's facilities be utilized as the registered office and secretariat for companies? (All these take place today in England, Australia, and the Far East.) Will the CPA become a professional director of companies?

Will he be designated by the courts as a master or referee to find the facts and resolve the issues in litigated cases pivoting around accounting questions?

Will the practice of personal financial management that now abounds in Hollywood, though few CPAs engage in it, break out of its Hollywood shell, become universal, and be dominated by CPAs?

Just as a brand-new vista is opening up to the world through the conquest of outer space, will the next twenty years disclose for the CPA horizons not now seen or seeable?

On the other hand, will "automats" of accounting records—that is, business equipment and data processing centers—mark the death knell of write-up work? Will CPAs run these automats? Will electronics make audit detail and the junior accountant obsolete?

Structure of the profession

At present, depending on the variations in state laws, there are three categories of accountants engaged in public practice: CPAs, licensed PAs, and those without official identification who merely hang out a shingle as public accountants. In one state or another, the three are permitted to "certify" financial statements.

In a score of years from today, will the right to certify be reposed solely in the hands of the CPA? In other words, will certifying financial statements be on the same regulated professional plane as the practice of law or medicine?

Since the accounting function is an integral part of business, and business is not hemmed in by state lines, will the CPA certificate as a state license turn out to be an anachronism in the next twenty years? Will it become, instead, a federal license so as automatically to impart national uniformity to requirements for the certificate and

mobility of CPA service across all state lines?

A great deal of practice today is done through firms. With increasing growth and complexity of accounting practice, service through firms is likely to increase. Will the firm, rather than the individual, as a unit of practice, create special problems of responsibility, ethics, and legislation?

Will mergers of accounting practices during the next twenty years have the effect of eliminating the medium-size firm, and confining the field to either very large or very small organizations?

As to the very small or one-man organizations, will the profession be organized to preserve their practices for them or their estates, in the event of disability or death?

Liability and specialization

The legal responsibility of CPAs today seems so broad that it could be disastrous. Complete insurance protection is virtually impossible and the cost of available insurance is mounting. Will legislation come about to keep the CPA's liability within realistic bounds? Otherwise, will the huge risk make public accounting practice uneconomical and reduce the number of CPAs engaged in it? Will the government then have to fill the void?

An insufficiency in the ranks of CPAs may come from another source. Suppose there is a tidal wave of demand for certified statements from presently untapped springs such as banks, labor unions, pension funds, etc. Will there be enough CPAs to satisfy the public's need? This is not merely a matter of numbers. Will personnel recruitment and caliber of education be such as to insure the highest standards of competence, at reasonable cost to the public?

At present, public accounting is pretty much a generalized practice. Is that likely to undergo change in the next twenty years? Will important parts of the profession's work be gradually assumed by specialists?

If specialization takes hold, will it be along functional lines, such as taxes, management services, costs; or will it be along industry lines, in which a general practice is confined to a particular industry?

If specialization does come, will it be reflected by departments within accounting firms, or will each specialty be found in an office or firm of its own? Will clients take kindly to dealing with a number of specialists instead of one general practitioner?

What will be the effect of specialization on the education and experience requirements for the CPA certificate? Will it alter the CPA examination? Will specialized offices be boon or bane for the

staff man, and affect his ability to cope with the examination?

How will a specialist be identified? Will it be by self-styling or by formal accreditation? In medicine, there is a highly developed official pattern for designation of nineteen specialties. Will accounting follow suit, or will it be left to the market place, or the practitioner himself, to fasten the label?

Will there be a preparational and testing program for the specialist beyond that inherent in the CPA certificate? If there is an accreditation process, will the title "CPA" become the symbol for a general practitioner, and some other degree the mark of the specialist?

Will the stimulation of another degree result in increased competence of the general practitioner, or will it so deglamorize the CPA certificate as to create serious identification problems for the public, and make for invidious comparisons within the profession?

If specialization comes, will it fragment or cohere the CPA profession? Will it bring about separate professional organizations outside the Institute, or will it bolster the Institute all the more?

Will specialization bring about a free flow of referrals between general practitioner and specialist, or will problems of jurisdictional boundaries create internecine tensions within the family?

Education

The report of the Commission on Standards of Education and Experience for CPAs recommends that professional schools be established to provide special educational requirements for the public practice of accounting. The Commission also recommends doing away with the experience requirement for the CPA certificate when these schools are adequately functioning. Will such schools come into existence in the next twenty years? Will it be found that they can substitute for the existing experience requirement?

Will the CPA profession sponsor student societies, or in some other way develop close relations with accounting students?

Will the profession organize and guide the interest and energy of the non-CPA staff man? Will it provide some criteria or exercise some supervision over the training and experience that member CPAs give their non-CPA staff men?

Will the profession recognize a co-operative responsibility to provide means for training staff men of local accounting firms, so that such staff men may enjoy the same educational advantages that national firms make available to their staffs?

The conditions of practice are constantly chang-

ing in this rapidly moving world. Continuing education is an absolute necessity if any profession is to keep abreast of the times and properly serve the public. Will accounting catch up with law, medicine, and engineering in a comprehensive program of continuing education?

The Institute is about to launch a program in continuing education. Will time show that the profession is really interested? Will continuing education come to be recognized as a fundamental part of accounting education as much as undergraduate work?

Will a program conducted by the Institute meet with the co-operation or resistance of school faculties? Will such a program relieve the schools of the burden of vocational training and enable them to "liberalize" their curriculums?

Will continuing education embrace not only technical areas but also the earthy aspects of administration of an accounting practice? The Institute recently launched studies in practice management. In the next twenty years, will research and publications in this area be so extensive and valuable that practicing accountants will be armed with the same scientific tools, guidance, and insight for management of their own affairs that they now strongly recommend to and help provide for their clients?

Will continuing education achieve its ultimate goal to help improve the quality of a practitioner's work, increase his competence, advance his fees, raise his personal living standards, and release more time for study and for participation in community activities?

Ethics

One of the badges of a profession is the enforcement of discipline among its members. Will accounting's badge in twenty years be bigger than it is today? The codes of ethics as they now stand have been drafted with audit work primarily in mind. Will the codes be expanded to provide for special fields like taxes and management services? Will codes of ethics be uniform throughout the country?

Will the CPA profession still be functioning on a "complaint" basis, or will there be within the profession a self-starting policing system, designed to make a continuing review of the work and activities of practitioners and to lift the professional level? Will the profession take over some of the policing now done by SEC and other governmental agencies?

Will the ethical concept of confidential communication between client and accountant emerge in the next twenty years as the legally endowed

privileged communication that now exists in the legal and medical professions? Or, will the importance, in the public interest, that a CPA be independent, make privileged communication a threat rather than an advantage to the profession?

At present, when a case in litigation also poses problems in ethics, it is the general practice of professional organizations to withhold disciplinary review until the legal phases have been adjudicated. In the next twenty years, will this undergo change? Where, for example, the case involves liability for professional work, will the profession go into the case in its early stages so that the courts may have the benefit of the views of the professional body expert in the technical area?

Because of the impact that any one case dealing with the liability of a CPA has on the entire profession, will the professional organizations take the initiative to insure fair and competent presentation of the defense? Will the profession undertake to defend those who are deemed to have a meritorious defense? If so, will such procedures prejudice the rights of the parties or create more problems than they solve?

The non-CPA practitioner

The essential difference between the CPA and the non-CPA is that the CPA certificate *identifies* satisfaction of state requirements for professional competence and responsibility. If in twenty years, non-CPAs are still engaged in certifying financial statements, what will the relationship between the two groups be?

Will their work bring them closer together, or drive them further apart? Will the CPA seek to develop some form of kinship with the non-CPA so that they may jointly raise the level of all accounting practice, in recognition that poor work by anyone—CPA or otherwise—can dilute the prestige of the CPA certificate? Will the CPA set up an education program to help the non-CPA become a CPA?

Will mixed marriages of CPAs and non-CPAs in accounting firms be found to help or hurt the public, or even be permitted, twenty years from now? In any event, will such a firm be permitted to have an equivocal signature to a certificate whereby the firm name first appears “by” a CPA partner who describes himself as such?

Will CPAs maintain relations with organizations of non-CPAs that advocate legislation designed to impair the CPA certificate? Or will the CPA decide to go it alone rather than get involved in ties that can drag him down?

In respect to legislation, at present the national organizations of both groups favor laws that will

regulate that part of accounting practice concerned with the right to certify financial statements. The right to practice in other areas of the accounting function would not be affected.

The two groups differ on who shall be permitted the right to certify. CPAs say the public has so much at stake in this area that only those who have demonstrated competence and responsibility to qualify as a CPA should have the right to certify financial statements. To effect a constitutional and orderly transition, all PAs at the time the law is passed would be licensed and have the right to continue to do certifying work. The PAs say that licensing and the right to certify financial statements should be open forever to all PAs, present and future.

Which philosophy will prevail? Which will prove to be more protective of the public's interest?

If the PAs prevail, what qualifications will be required of them in the future to obtain a license? If the CPAs prevail, will there be enough CPAs to supply the public's needs? If there are not, will there be pressure on legislatures for lowering the requirements for the CPA certificate or for easier examinations or grading?

One natural element of confusion in the public mind today stems from the fact that the titles CPA and PA look and sound so much alike. Will the solution then turn out to be a matter of semantics? Just as in the medical profession, the designations of nurse, chiropractor, dentist, doctor, professor, make things perfectly clear to the public, will the elimination of the word “accountant” or “auditor” from the title of the non-CPA put all problems at rest?

The question of designation

Will the title “Public Bookkeeper” be the answer, or will that spark a brand-new set of problems? Will Public Bookkeepers accuse CPAs of invading their territory when the CPA does write-up work? Will they demand that he drop the CPA designation when he does public bookkeeping? Will it be a debasement of the CPA certificate for a CPA to do public bookkeeping, or will the public expect and find that when any part of the accounting function, including bookkeeping, is done by a CPA, the result should be a higher order of product and responsibility than where a non-CPA is involved?

If the need for CPAs in the work of certifying financial statements expands in the next two decades, will the existence of Public Bookkeepers alleviate the shortage that might otherwise exist in the ranks of CPAs? Will the existence of the

Public Bookkeeper then enable CPAs who now do bookkeeping work to upgrade their staff, salaries, and fees by concentrating on the engagements involving certifying work? Will this, in turn, bring back to public practice CPAs now in private work?

Public relations

Twenty years from now, will the public have a clearer image of the CPA than it has today? Will the CPA have thoroughly educated the public to the meaning and standards of the CPA, so that the public will be able to make an informed choice, and the same distinction the profession does, between the CPA and the non-CPA? Or will there still be confusion in the mind of the public, and will the fact that there is also a licensed public accountant, and a self-designated unlicensed public accountant, compound the confusion?

Will the CPA's service and value be better understood by the man in the street than at present? Will programs be developed that will educate the public, the legislatures, and the courts as to the nature of accounting, its limitations, and potentialities? Will the users of accounting have a firm grasp of the difference between unqualified, qualified, and disclaimed opinions?

Will the CPA be active in politics? Will his voice be heard on the floor of the Congress and the state legislatures? Will he occupy, far more extensively than at present, the topmost fiscal posts in government? Will his views be sought after and expressed on all matters bearing on accounting or accountants proposed or adopted by the legislative or executive branches of government?

CPAs today suffer a public relations loss when the CPA of one state is not permitted to refer to himself as a CPA in another state. The result is that published reports of companies frequently refer to the auditors as "public accountants" or "accountants and auditors" instead of "certified public accountants." Will this handicap be overcome by nationalizing the CPA certificate, or by having automatic reciprocity in every other state for the CPA of any one state?

At the April 1958 meeting of the Council of the Institute, the committee made its first recommendation for a long-range objective. It reads:

It is an objective of the Institute to serve as the national organization of certified public accountants in and out of public practice, and to develop and maintain the form of organization best adapted to the needs of all its members.

The Council adopted the objective. Will the implementation of the objective result in an Institute that will be more valuable to a larger number

of members than is true today? Will it bring about an Institute that comes closer to the ideal of representing, through membership, the voice and strength of every CPA in and out of practice?

In the implementation, will specialized sections of the Institute be organized with all participants closely tied together through their common bond as CPAs? Will the sections help attract and convene, within the Institute, those CPAs, in and out of practice, interested in only one or a few fields?

Will there, for example, be separate sections to concentrate on such areas as industrial accounting, accounting education, government accounting, taxes, management services, local practice, practice dealing with public corporations, staff work? In other words, will the Institute provide a home for all CPA interests, and will the sections be important rooms in that home?

Will the nonpracticing CPA really show interest in coming under the type of Institute umbrella provided by sections? Will he, instead, look to his specialized organizations, like the Controllers Institute, National Association of Accountants, Institute of Internal Auditors, American Accounting Association, Federal Government Accountants Association? Or will he, as a CPA, feel that he wants to meet and talk with other CPAs about his technical interests?

Will sections be an effective means of supplementing or implementing a program of continuing education for all CPAs? Will sections prove a forerunner to accreditation for a specialty or for qualifications beyond the CPA certificate?

Role of the Institute

On the other hand, will sections be potential splinter groups, especially if differences arise with other sections or with the Institute generally? Or will the sections find that their strength, usefulness, and accomplishments stem from the cohesion of the Institute?

Will Institute sections meeting in different parts of the country create conflicts with state societies? Will sections inordinately divert Institute money and effort from primary attention to the practicing CPA, without whom there is no "profession"? Will expansion of the size and work of Institute committees be a better answer than sections?

Turning to a different area, in twenty years will the Institute member not in public practice have equal membership privileges, responsibilities, and dues, as the practitioner? Will nonpractitioners be represented on Institute committees more nearly in proportion to their numbers? Will nonpractitioners be eligible for Council membership, as they now are in Canada, England, and most state

societies, and as they now are in the bar and medical organizations? Will the nonpractitioner really care about the "politics" of the Institute?

Will the practitioner find that the nonpractitioner, by activity in the Institute, has much to contribute to the practitioner, and vice versa? Or, if the nonpractitioner has a significant role in the Institute Council and committees, will the practitioner begin to get restive about his own place in the Institute and want to set up a new organization just for the practitioner?

Will participation by the nonpractitioner in Institute Council and committees bring to bear too much of the "client" point of view? Or will practitioners find that in their formulative professional deliberations, getting more of the client point of view can be wholesome, constructive, and a desirable challenge to the practitioners?

Will the prestige of the CPA certificate and the importance of independence and objectivity mean much to the nonpractitioner? Or will he covet those traits all the more in recognition of the fact that employers value him for those very qualities?

Inclusion of all CPAs

In twenty years, will the Institute be open to all CPAs? In 1959, the Institute admits to membership only those who have passed the uniform examination and who have had two years of experience. In 1979, will the Institute's gates accept any person deemed worthy by his state of the CPA certificate? In other words, will the Institute continue to have its own admission requirements, or will it abide by the standards set for the CPA certificate by the respective states?

These questions will be academic if, in twenty years, uniformity of the examination expands to uniformity of education and experience requirements. It will also be moot if the state societies and the Institute have uniform admission requirements. Will these objectives be attained? If they are not, then the question will recur whether the Institute roof shall cover all CPAs or, as at present, not extend over some.

Will some midway course emerge, such as admitting all CPAs into the Institute, but reserving to the Institute the right to change this at any time, to combat any rash of waiver certificates or other extreme situation in any state?

The fact that there is a uniform examination throughout the land is a great unifying force. Will anything take place to impair that desirable status? Will there be any disagreement between a state legislature or a state board and the Institute on matters of fundamental policy or procedure that can cause the dropping or withholding of the uniform examination from that state?

In the next twenty years, will the Institute become a qualifying body itself, and will "Member of the American Institute" carry more weight than a CPA certificate?

Will the Institute in the next twenty years become an "academy" with honorary membership or membership by invitation only? Or will it create such an academy within its own membership? Going in the other direction, will the Institute take under its wings licensed PAs, and become the national organization for all state licensed accountants?

State societies

Today there are the Institute and the state societies. They have evolved a highly satisfactory way of life for, and with, one another. In the next twenty years, will this close co-ordination result in fusion, federation, affiliation, or other modification?

Which pattern will best get the work done? Which form of relationship will insure having the best talents of the profession in the governing body and committees?

Will there be just one organization—the Institute—with chapters in the various states? That is the way the National Association of Accountants and the Controllers Institute are organized.

Will it be easier to attract one membership with \$80 dues, compared with two memberships at \$40 each? Will the wide range of subject matter with which accounting deals make it unrealistic to direct everything from national headquarters? Will leaning too heavily on a national organization de-vitalize local organizations?

Will the state societies rather than the Institute be kingpin in twenty years, with the Institute merely a federation of the state societies? That is the way the profession is now organized in Canada.

Will relations with state legislatures be more effective through state organizations, rather than through local representatives of a national organization? With the CPA certificate a state license, will it be prudent to integrate state societies into a national organization? Or, will the existence of the uniform CPA Examination throughout the country minimize the significance of state laws? Will that be even more true if there are also uniform education and experience requirements?

The Institute and state societies now operate under an informal voluntary allocation of functions to avoid duplication or having either do what the other can do better. Will this become more comprehensive so that the Institute will be officially and primarily a planning and policy-making body, while the state societies become the imple-

menting group at the local level?

Will better co-ordination come about through some other arrangement? For example, will national professional policies be set by a bicameral group, with the state societies electing the House of Representatives and the Institute the Senate? Will there be automatic concurrent joint membership in the Institute and state society? Will uniform fiscal and administrative years be adopted by both? Will the Institute be regionalized? Will state societies be staffed by Institute personnel, or by personnel trained by the Institute?

Other national organizations

In twenty years, will the Institute be the leader in the general field of accounting, though other organizations have dominance in their particular fields? Leadership comes through position and competence. Will the Institute enjoy both?

With leadership goes responsibility. Will the Institute want the entire accounting globe on its shoulders? Will it be able to avoid the role? Will the accounting and business world look to the Institute for leadership? Will leadership be the only way open to the Institute, if it wants to keep control of standards?

What will be the Institute's relations with the other national accounting organizations? At the October 1958 meeting of the Council of the Institute, the second long-range objective recommended by the committee was adopted. That objective reads:

It is an objective of the Institute to encourage co-operation and consultation among national organizations of accountants to the end that the entire accounting function may make its greatest contribution to the public welfare.

In the implementation of that objective, will CPAs find it desirable to do, in the next twenty years, what the engineers have already done? The 200,000 civil, mining, chemical or electrical engineers are, through their respective organizations, banded together in a Joint Engineering Council.

They thus pool their thinking and draw on each other's experience in matters of common interest, such as research, education, personnel, legislation.

Will accounting, through the Institute, follow a similar pattern to solidify the partnership of all branches of accounting? Will the Institute help organize and finance a Joint Accounting Council or some other machinery for dealing with mutual problems? Will it, instead, merely be left to CPA members of the different accounting organizations to act as the catalyst?

Will the Institute help bring into being or participate in an Inter-Professional Council to unite the various professions in their common problems, and promote concerted means of working out their differences?

Will the next twenty years see enhanced interest by the Institute in national business associations, and vice versa? Will there be active affiliation by the Institute in all those associations in which the Institute is eligible for membership? Will the Institute help shape policies for those organizations on accounting matters? Will such a course create any problems of CPA objectivity and independence?

In short, will the Institute, through competent and recognized leadership, increasingly advance the public interest, and in that process help CPAs obtain greater prestige and rewards?

As the Lord Chancellor laments in Gilbert and Sullivan's *Iolanthe*, after posing to himself, for adjudication, many difficult, even embarrassing questions about himself: "Ah, my Lords, it is indeed painful to have to sit upon a woolsack which is stuffed with such thorns as these."

The questions the CPA profession must ask of itself about itself are just as agonizing. While the target is twenty years away, aim must be taken now, to wind up with a bull's-eye. Obviously, no committee of 3 or 303 suffices. It requires everyone interested in accounting to think long, hard, and out loud.

Each one has the exciting and rewarding opportunity and responsibility to help fashion the accounting world for the next generation.

By Robert M. Trueblood

Professional and Technical Practitioners in Accounting

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Professional and Technical Practitioners in Accounting

A discussion of standards and titles appropriate to professional and nonprofessional areas of accounting

THE vigorous expansion of the purpose and the applications of the accounting function in today's economy raises a number of questions about the role of the accountant in public practice.

Current business census data indicate that there are over 375,000 auditors and accountants in the United States; there are more than 725,000 bookkeepers.² However, independent practitioners in the entire field (CPAs and non-CPAs) probably constitute no more than one-tenth of the total, or slightly more than 100,000. This article considers only the place of public practitioners within the accounting function, whether they be auditors, accountants, or bookkeepers. The important role of accountants in industry, education, and government is not considered.

Many of the current problems of the public

practitioner of accounting basically stem from the variety of public practitioners—CPAs, public accountants, public bookkeepers, and others. Each group has its own view of the responsibilities of the public practitioner, and these individual views are sometimes divergent. From the CPA's point of view, some of the questions concerning the accountant in public practice include the following:

- Should the CPA designation be regarded solely as an identification of competence, or should it imply an exclusive right to practice in certain areas?
- To what extent should the CPA, whose competence to state an opinion on financial statements is identified, have an interest in the work and standards of others within the public practice of accounting who are not so qualified?
- Is there a clear-cut and practical distinction which can be made between the practice of accounting at the professional level (as in stating opinions on financial statements) and the performance of technical work (as in public bookkeeping)?
- Should identification of the important technician class be encouraged?

These and other questions regarding public practice within the accounting function have been with us for some time. The answers are not clear at this time. It is the purpose of this article only to develop some of the questions in further detail, to

¹ The material and ideas in this article were developed in many sessions of the long-range objectives committee of the American Institute over a period of several years. The long-range objectives committee now includes Herman W. Bevis, chairman, Norton M. Bedford, Clifford V. Heimbucher, and the author. J. S. Seidman and Robert E. Witschey, former members of the committee, also participated in preliminary discussions of the subject.

² *Statistical Abstract of the United States* (Bureau of Census-U.S. Dept. of Commerce), U.S. Government Printing Office, 1959.

indicate background considerations, and to suggest alternative approaches to their solution.

As a first step in analyzing the role of the accountant in public practice, it is helpful to explore the characteristics of the different kinds of current public practice. As a rough approximation, accounting practice today may be classified as being either at the level of practice performed by the CPA, or at the less professional level of the practice of public bookkeeping with its narrower responsibilities.

Characteristics of professional work

Professional practice in any specialized body of knowledge has always developed through a long and laborious process. There is involved, first, the recognition of a "knack" or "bent"; then the acquisition of technical competence; and, finally, the intertwining of the practice of a technical competence with professional obligations. This final step in the development involves, most particularly, recognition of the public interest, as well as related social and moral responsibilities.

None of us would question the present-day professional status of medicine. Yet, as recently as seventy-five years ago, that profession was plagued with problems of malpractice, legal ramifications involving the right to practice, and organizational problems.³ In particular, education was a phase in the development of the medical profession which was not settled swiftly and shortly, but rather required time and hard thought.⁴

Definition of a profession is always difficult. We may, for present purposes, consider the following characteristics as typical of professional activity:⁵

1. A profession is based on a body of specialized knowledge.
2. Associated with the profession is a recognized educational process for acquiring the specialized knowledge of the profession.
3. The profession has standard qualifications governing admission to the profession and formal recognition of status.
4. A profession typically has a standard of conduct governing the relationships of practitioners with clients, colleagues, and the public, as well as an acceptance of the responsibilities in-

³ Helen Clapesattle, *Doctors Mayo*, 2nd Edition, University of Minnesota Press, 1954.

⁴ Abraham Flexner, *Medical Education in the United States and Canada*, Carnegie Foundation, 1910.

⁵ Albert J. Harno, *Legal Education in the United States*, Bancroft-Whitney Company, San Francisco, 1953.

herent in an occupation endowed with the public interest.

5. A profession usually has an organization devoted to the advancement of its obligations to society, in addition to the economic interests of the group.

By all these standards, the CPA today qualifies for professional status; moreover, he has achieved it. It is well for every CPA to remind himself that these are the circumstances, the standards, and the obligations which underlie professional status.

There must be added to any list of characteristics of the public practice of the CPA the notion of independence. In any work requiring the expression of the CPA's judgment or opinion, independence is vital. Independence is also a distinguishing characteristic of the CPA's practice as compared with some of the other professions. Advocacy, for example, is a prerequisite in much of a lawyer's work. But independence, and the moral and intellectual integrity which are a part of independence, have become the practicing CPA's hallmark.

Technical and professional activity

In what respects does the CPA's work differ from that of the public bookkeeper? Public bookkeeping requires a degree of technical proficiency. It involves understanding of a limited body of specialized knowledge. It requires judgment, although usually in less complex situations. At this time, however, no standard of qualification is required for the practice of public bookkeeping, and no significant standard of conduct governs the proper relationship of the bookkeeper with his clients and the public. The relationship of the concept of independence to the work of the public bookkeeper is by no means clear at the present time.

By all of the usual standards, the public practice of bookkeeping does not qualify as a professional activity. Whereas the practicing CPA's status is



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professional, the public bookkeeper's status is more nearly that of a technician. On the one hand, the professional expression of judgments and opinions by the CPA in public practice involves a high degree of competence, independence, and responsibility in the sense of adding credibility for the benefit of third parties. By contrast, the bookkeeping function includes preparing books and records and drawing from them financial statements and tax returns. These operations require technical competence and judgment somewhat less in scope, and involve more limited responsibility than the practice of the CPA.

The various individuals operating within the accounting function, therefore, can be related in this way: the CPA expressing opinions and judgments on technical matters is a professional; the public bookkeeper is a technician. The CPA in public practice may, if he wishes, operate through the entire band of the accounting function from its top to its bottom, since he has the competence to do so. The bookkeeper, on the other hand, has the identified competence to practice only in a narrower band of the accounting function. An analogy is the doctor who, in terms of competence, can perform all of the work of the laboratory technician—and undoubtedly does from time to time. The laboratory technician, however, has not been identified as competent to perform—and is not permitted to perform—the entire practice of the doctor.

In considering the differences between professional and nonprofessional public practitioners within the accounting function, it becomes important for the public to understand the distinctions. The need for such understanding by the public necessarily involves a discussion of the significance of titles.

Making titles meaningful

In the medical profession, differences of function, responsibility, and professional certification are made clear by differences in titles. The words, "nurse," "pharmacist," "dentist," "doctor," "professor," bring to mind distinctly different spheres of activity within the medical function. A similar categorization of identified competence and responsibility among various public practitioners within the accounting function may well be in the public interest.

The title CPA has been adopted by every state and territory as a means of enabling the public to identify those persons who have successfully passed a rigorous examination, establishing their competence to start practice in a field requiring a broad base of specialized knowledge. The CPA title also means that such persons have met certain

prescribed standards of education and responsibility.⁶

Unfortunately, the CPA title identification tends to become somewhat blurred in the public mind because many states permit non-CPAs to use titles so similar to "CPA" that the public cannot distinguish among them. This title confusion can injure the public interest which early CPA legislation was designed to protect.

Reasons for confusion

For example, to the general public and to many businessmen, the terms "public accountant" and "certified public accountant" sound and look very much alike. Various other combinations of words, such as "registered accountant" or "licensed auditor" may be used legally in some states by non-CPAs, with resulting confusion. Further, even the single words, "accountant" or "auditor," have come to have a meaning in the public mind that may imply a level of experience or competence similar to that of the CPA.

It should be emphasized that the public needs the services of the non-CPA. The non-CPA fulfills an important need. But it also appears that the public needs some means of differentiating between the CPA and the non-CPA.

Nomenclature alone is not a complete solution to the confusion regarding title designations. In the last analysis, quality of practice is what counts. However, the use of titles which clearly differentiate would help the public to identify practitioners from whom varying levels and quality of practice might reasonably be expected.

The conclusion is inescapable that the solution to the problem of titles is that only CPAs should be permitted to hold themselves out as offering services to the public under a title which implies a professional competence and responsibility. The title, "CPA," presently has this implication, and has been adequately restricted by legislation in all states. But this conclusion does not eliminate all confusion. As previously noted, there are many other possible

⁶ In a number of states, regulatory legislation has been adopted which permits a transitional group who have not earned the CPA designation to practice under the title "public accountant." In such states, the "public accountant" is permitted to do all those things which a CPA can do, except to use the title "CPA." In most states adopting such legislation, the title "public accountant" is available only to a transitional group eligible for registration when the legislation is adopted. Over time, under the provisions of such regulatory legislation, the "public accountant" will disappear, and ultimately only the CPA will be permitted to hold himself out as an expert in the professional and public practice of accounting and auditing.

combinations of words, such as "public accountant" and "public auditor," which may invoke in the uninformed the image of the CPA. Broadly speaking, the public would probably be better protected if use of the words, "accountant" and "auditor," in any combination or manner implying both an expert knowledge and a holding out of availability for service to the public, were restricted to those who have demonstrated their professional competence—the CPAs.

Nonetheless, the matter of title designation is not the only problem which relates to proper definition of public practice within the accounting function. To what extent is clearing up the confusion in the public's mind a matter of statutory regulation of the nature of practice itself?

The matter of regulation

The services that public practitioners in the accounting function perform for the business community are wide in range and broad in scope. Not all public practice requires the full spectrum of professional qualifications. As indicated earlier, bookkeeping and similar technical services are an important part of public practice in the accounting function and are within the competence of non-certified persons. Yet CPAs may, and often do, take on assignments in bookkeeping and technical areas requiring only a limited degree of competence. The fact that many CPAs do such work does not mean that those services become professional—and subject to statutory restrictions—simply because they are performed by persons with professional qualifications. To be sure, the CPA brings professional status and competence to certain subprofessional tasks. Further, he is charged with a higher degree of social and ethical responsibility in his performance of such subprofessional tasks, if he chooses to perform them. But this does not mean that everyone who may be permitted to perform these technical services must qualify as a member of the profession. Lawyers do things that other persons are permitted to do. For example, lawyers are competent and are permitted to search property titles. But this does not mean that everyone who searches real-estate titles must be a lawyer.

It may be concluded, therefore, that there is probably no strong public interest suggesting restrictions upon the right to practice bookkeeping and similar technical services, if, indeed, it were legally possible to do so.⁷ On the other hand, the public welfare and the public interest are so deeply involved in the certification of financial statements, as well as in other work requiring the expression of independent judgments on accounting and financial matters, as to justify legislation which would

ultimately permit only CPAs to engage in work of this kind.

What, then, can be done to provide better standards and higher status for a group performing important work within the accounting function—the public bookkeepers and other such technicians?

Standards and status for the non-CPA

All of the work within the competence of the CPA cannot, and perhaps should not, be established as the exclusive domain of the CPA by law or otherwise. As a practical matter, it is unlikely that there will ever be enough CPAs to satisfy the bookkeeping requirements of the millions of small businesses in this country. But bookkeeping and other technical services constitute an important part of the accounting function. Preparation of basic records has a direct effect upon the soundness of the financial statements which are drawn from them, as well as the ease with which they can be audited.

A probable development of the future, which possibly tends only to confuse the definition problem further, is the growing importance of institutional service bureaus which, in a sense, are also involved in public practice within the accounting function. There are already many such institutions. As technology improves and electronic equipment becomes cheaper and more flexible, it is likely that the institutional entrepreneurs willing to "keep books" for a variety of medium and small businesses will increase.

Appropriate technical and ethical standards for bookkeeping and similar technical services are highly desirable in the interests of both clients and other public practitioners. Since bookkeeping and similar technical services are a part of the accounting function in which the public practitioner must be directly involved in his audit work, it has been suggested that CPAs should do all they can to help bring about such standards. Some contend that, in doing so, the status of CPAs will be elevated by giving added emphasis to the higher level of professional work which only CPAs can perform.

At the same time, noncertified persons perform-

⁷ The present line of court cases, involving regulation of practice in accounting and in other fields, indicates that there are insuperable legal impediments (quite apart from moral or other considerations) to the setting aside of public bookkeeping and other technical services for either CPAs, or for an enlarged group of practitioners. At this time, court decisions bearing on the subject indicate that public bookkeeping, together with technical services requiring a competence only in the simpler situations, does not involve the public welfare to an extent sufficient to warrant the exercise of a state's police power.

ing bookkeeping and similar technical services have an understandable desire to achieve and to protect their status and to secure public recognition. It is natural that the more competent among the technician class seek, through identification, discipline, and standards, to distinguish themselves from those whom they regard as less qualified.

What are the possible solutions for clarifying the roles of the various public practitioners in the accounting function, and their relative competence? What needs to be done to distinguish the professional CPAs on the one hand, and the very important group of technicians on the other? Should the CPA's concern with these questions take him into the problems of the noncertified practitioners?

Some alternatives

One relatively simple approach to the problem would be to expand the CPA designation to embrace all public practitioners within the entire accounting function. This could be done by changing the concept of the CPA designation from one of professional competence to one of licensing without demonstration of ability. Or it could be done by issuing CPAs on waiver to all persons currently in public practice. This approach would contemplate that, in the future, the significantly expanded group of CPAs would handle the entire volume of public practice responsibilities, irrespective of the difference in the level of competence and experience required in differing kinds of work.

The implications of this proposal are many, and significant. A sort of mass registration would be involved. The CPA title would suffer considerable downgrading. For the many who have worked over the years to establish the meaning of the CPA designation, this suggestion would involve a violation of the concepts of education and experience which have been implicit in the CPA title for more than sixty years. Further, the public would probably be more confused than it now is, since the entire meaning of the CPA title, including its indication of higher levels of competence, would be eliminated overnight.

A second approach to the problem of the role and designation of public practitioners within the accounting function would be for CPAs to do nothing at all about the problem. In this case, those who have qualified as CPAs would continue to be identified as such, and there would be no change in the meaning or implications of the CPA designation. Everyone else in public practice might do as he wished—except that he would not be permitted to refer to himself as a CPA, or by any other title restricted by state law.

With this approach, all non-CPAs in public prac-

tice would constitute an amorphous, heterogeneous group, without appropriate or consistent designation or identification. They might, as a group, constitute a continuous threat to CPA legislation in particular states. There is the further possibility that this mixed group could, over time, establish the impression that CPAs assume a monopolistic and restrictive attitude which is not in the public interest. In any event, the problem of identification of the non-CPA in public practice would, under this suggestion, remain an open question. What is his competence? What is he qualified to do? What is the degree of his responsibility in relation to the work he performs?

A third approach to the public practice dilemma is for non-CPAs to establish their own identification in the mind of the public. This important technician group might be encouraged by CPAs to develop its own standards and disciplines, or CPAs might simply stand by while the group establishes its own standards. The technicians might seek their own identification by use of a meaningful title such as "Public Bookkeeper," "Fiscal Recorder," or some other phrase.

If such an identified technician class were to evolve, then legislators might more generally accept the proposition that only CPAs should be permitted to hold themselves out as offering services to the public under a title which uses the words, "accountant" or "auditor," in any combination implying expert knowledge. Evolution of such a class might hasten the recognition that only CPAs should be permitted, as public practitioners, to sign financial statements with any wording indicating that they have expert knowledge of accounting or auditing, which, of course, includes all opinion work. The latter point is important since, as our profession develops, there will be more and more work requiring the statement of an informed and independent judgment or opinion on specific subjects, special transactions, and matters of theory, in addition to opinions relating to financial statements. In these circumstances, it will become even more important for the public to be able to distinguish those who are competent to perform such work.

In time, CPAs might refer work of less complexity and responsibility to an established and identified group of competent technicians, in the same manner as is now done in other professions. The doctor works directly with a laboratory technician in diagnosis of disease and in treatment of patients. The architect employs or uses the services of a draftsman. The pastor delegates social service aspects of his program to an especially trained worker. In the accounting function itself, there are already some CPA firms which undertake the responsibility for designing a bookkeeping system, but pre-

fer to call upon others to advise and consult in the daily operation of that system.

The concept of permitting and encouraging a technician class to develop its own standards, discipline, and identification may have much merit. The concept also raises many questions:

- Would such a step be an improvement over present circumstances?
- Would the public's understanding of the different levels of responsibility involved in public practice within the accounting function be improved by such a proposal?
- Would a practitioner's level of compe-

tence be more clearly identified by the use of two titles—CPA for the professional accountant-auditor, and a distinguishable but suitable title for the technician?

- Would the recognition of a technician class have any deleterious effects on the CPA and his professional position in the business world today?

Definitive answers to these questions cannot be presented at this time. But raising the questions should serve to stimulate free and intelligent debate. Such debate is a prerequisite to any satisfying solution of present problems.

By John L. Carcy

Higher Accreditation for CPAs

This paper has been reviewed and released by the American Institute's committee on long-range objectives, as a basis for discussion of the subject, which is one of five aspects of "Accounting Practice of the Future" now under consideration by the committee. The author, who serves as secretary of the committee, undertook to draft this paper as a part of the committee's program. Current members of the committee are Herman W. Bevis, New York, chairman; Norton M. Bedford, Urbana, Illinois; Clifford V. Heimbucher, San Francisco; and Robert M. Trueblood, Pittsburgh.

"The accounting profession has the potential to become one of the great professions if it will accept all phases of measurement and communication of economic data as within its province"—Norton M. Bedford, professor of accounting, University of Illinois.

CERTIFIED public accountants have become recognized as members of a true profession, but they have not yet quite achieved recognition as a great profession—a learned profession. Most people, when asked to name what they believe to be the great learned professions, would probably name medicine, law, the ministry, teaching, architecture and engineering—perhaps not in that order.

It is significant that in each of these learned professions there has been established a broad foundation of formal education, postgraduate academic training, and facilities for continuing education or refresher courses for practitioners.

There is a gap between the educational requirements for the CPA certificate and the standards which the public has come to regard as necessary for admission to the learned professions.

The Institute's committee on long-range objectives believes that a system of higher accreditation for CPAs could do much to accelerate the elimination of that gap.

Educational background of CPAs

Why aren't CPAs yet recognized as a learned profession? Partly, no doubt, because of the youth of the accounting profession. The profession has been a significant factor in our society for only thirty or forty years, and its significance is just beginning to be appreciated by the more sophisticated observers.

But the recognition of certified public accountants as members of a learned profession is also delayed by the fact that the profession as a whole is not required to meet a high standard of learning. There are, of course, very many individual CPAs who have exceeded by wide margins the basic educational requirements—some reaching levels comparable to any profession. But there is no present mechanism designed to stimulate advanced study by the members of the profession as a whole, nor to identify those individuals who have voluntarily undertaken it. While only about a dozen states require a college education for the CPA certificate, it is estimated that about 85 per cent of the successful candidates in the CPA examination have college degrees. This in itself, however, does not necessarily meet the standard necessary for recognition as a learned profession.

The scope of the educational process through which most CPAs have gone is not as broad as that

of the older learned professions, and the scope of the CPA examination by which the practitioner is qualified is also comparatively narrow. There is, of course, an interrelationship between the examination and the educational process. They influence one another.

Are undergraduate courses adequate?

Most certified public accountants have been educated in undergraduate schools of business, but the business schools, as the Gordon and Pierson reports¹ point out, have focused largely on "vocational" or technical training and have not devoted enough attention to what, for want of a better term, are called the "liberal arts," which include communications (competent use of language), and those studies which develop a general understanding of human nature and of the economic, political and social environment (which would include mathematics and science). The undergraduate business schools, themselves comparative newcomers to the university campuses, often regarded without enthusiasm by the faculties of the traditional disciplines, should not be blamed for what some might consider shortcomings in accounting education. These schools have had their problems. They have been pressed on the one hand to extend the scope of courses in the liberal arts areas, so as to develop future executives of broad vision and superior analytical powers; while on the other hand they have been pressed to provide graduates technically trained to go out on the job and earn their pay with a minimum of additional instruction by the employer.

In the accounting field, the undergraduate business schools have tended to take over the training

¹ Robert A. Gordon and James E. Howell, *Higher Education for Business*, (sponsored by the Ford Foundation) Columbia University Press, New York 27, N. Y. Frank C. Pierson and others, *Education of American Business Men*, (Carnegie Corporation of New York) McGraw-Hill Book Co., Inc., New York 36, N. Y.



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in techniques which in earlier days was the task of the apprenticeship system, later supplemented by proprietary residential and correspondence schools operated for profit.

With the rapid expansion of human knowledge in all fields, and the simultaneous increase in complexity of accounting practice, it seems clear that a four-year undergraduate course is no longer a sufficient educational basis to command recognition of CPAs as a learned profession—or, indeed, to equip them to meet the demands of the immediate future.

A broader CPA examination?

Requirements for admission to the practice of medicine and law have perhaps encouraged broader educational background than the CPA requirements. An accounting professor has said that with modern teaching methods it is possible to teach an intelligent student all he needs to know to pass the CPA examination in eighteen semester hours of academic work.

The undergraduate business schools, pressed as they are from all sides, are tempted not to require a quantity of course material beyond that necessary for qualification as a CPA. To put it the other way, the present standard of professional qualification does not encourage universities to expand the area of technical education in preparation for the practice of accounting.

Then why not beef up the CPA examination, so as to encourage a broader educational base? This is not as easy as it may seem at first glance.

The CPA certificate is, in effect, a license to practice as a professional accountant. It is issued by the political authorities of the several states, on the assumption that the public welfare warrants the exercise of the states' police power in this manner. Since the practice of accounting affects the public welfare most prominently in auditing and expression of opinions on financial statements on which investors, credit grantors, government agencies and others may rely, the CPA examination must justify itself as a test of basic competence in this area, which involves accounting theory and problems, auditing and the elements of commercial law. The examination also must be reasonably related to the actual needs of a typical community at a given point of time. Only by a gradual process of evolution can its content be expanded to test competence in more advanced subject matter which may be necessary to meet the community's needs in the future.

This means that the actual practice of accounting by the most progressive members of the profession will always be a long step in advance of the examination designed to test minimum competence to

meet the immediate needs of the public as a whole.

There is an inevitable time lag in raising licensing requirements state by state to meet rapidly changing requirements of society.

The role of continuing education

Only part of the education of professional men is the responsibility of the universities. The professions themselves have a responsibility for encouraging the continuing education of their members after qualification.

It is axiomatic that a professional man should study all his life. But without some incentive, without some guidance, and without some assistance, it is likely to be only the most highly motivated individuals who will undertake a systematic program of habitual study for their own self-improvement—particularly in areas not immediately related to income-producing capacity.

The late Robert Kane, who was director of education of the American Institute, made it clear that the accounting profession is far behind the recognized learned professions in providing continuing education courses.² Indeed, not only the law and medicine, but business executives, notably through the American Management Association, and quasi-professional groups such as bankers, credit men, insurance underwriters, have provided more elaborate continuing-education facilities than the accounting profession has yet developed.

The American Institute of Certified Public Accountants began efforts to develop continuing-education courses for its members as long ago as 1956, but it was not until 1959 that a full-time staff was organized to develop a comprehensive adult-education program as rapidly as possible. The program has been described by Louis Matusiak, the Institute's director of professional development, in "The Role of Educators in the American Institute's Professional Development Program," *The Accounting Review*, April 1960, p. 197.

The program could easily be expanded to provide courses in nontechnical areas, such as social sciences, human relations, and managerial mathematics.

This program can be flexible enough to fill gaps which may exist in the education of prospective CPAs until a more or less uniform pattern of university training is agreed upon.

Perhaps the ideal combination of formal and post-collegiate education would be one in which the universities through, say, a five-year curriculum, provided the aspiring accountant with a broad base

in the liberal arts, and the basic tools of business management, and also a firm groundwork in theory and principles of accounting and auditing, taxation, and management services; and in which the Institute's professional development program provided CPAs and their staff assistants with exposure to specialized subject matter and techniques.

There are those who believe that there are great advantages in studying advanced techniques simultaneously with practice, so that theory and application are learned at the same time—rather than studying the theories of these specialties years before there will be any opportunity to observe their practical application.

But again, the question of incentive for continuing education arises. How many certified public accountants will study for the intangible, indirect benefits of self-improvement? Would some formal credit or recognition that might enhance their prestige and increase their earning capacity be an added incentive?

The increasing demands on CPAs

Meanwhile, the accounting function is rapidly assuming greater importance in the economy, and the demands on certified public accountants are increasing on all sides. The accounting function has been defined by Herman Bevis³ as the measurement and communication of financial and other economic data. It seems obvious that the need for this function is bound to expand rapidly in the years ahead.

In the traditional areas of independent auditing for credit and investment purposes, new problems are arising every day. How to account for long-term leases and deferred taxes are two examples of relatively recent problem areas which are being studied intensively by project advisory committees under the Institute's new accounting research program. The audit of data stored on electronic tapes or in drums presents some interesting problems. Aside from new technical challenges, the auditor is required to display forensic abilities. More and more he is asked to sit with the board of directors where not infrequently he has to argue a point of view with company counsel or the management. More and more he is asked to appear at annual meetings, where he must answer questions by inquisitive stockholders.

Government regulatory agencies show a disposition to rely on independent audits by certified public accountants in lieu of examinations by agency staffs. This may extend the scope of inde-

²"Education and Training of Public Accountants," by Robert L. Kane, Jr., *THE JOURNAL OF ACCOUNTANCY*, October 1957.

³"The Accounting Function in Economic Progress," by Herman W. Bevis, *THE JOURNAL OF ACCOUNTANCY*, August 1958, p. 27.

pendent audits of regulated enterprises or companies which secure funds from government agencies to cover certain legal requirements which would not ordinarily be considered in an audit for commercial purposes. Obviously it is necessary for CPAs who undertake this work to be thoroughly familiar with the statutory and agency requirements in addition to having a sound knowledge of accounting and auditing.

These examples are perhaps enough to support the proposition that the certified public accountant today, even if he confined his activities to independent auditing, would have to have a great deal more capacity, adaptability, and knowledge than his counterpart of twenty or thirty years ago.

The CPA's expanding services

In the field of federal income taxation, the CPA is often the taxpayer's representative in dealings with the Internal Revenue Service. Again, what may be called forensic abilities come into play. Technical knowledge alone is not enough. And in estate planning and in foreseeing the tax effects of proposed business transactions, imaginative and creative abilities far beyond the capacity to wield a sharp pencil are required. Federal income taxation creates accounting problems fully as complex as those involved in corporate reporting or management controls. And taxation has an influence on business decisions probably greater than any other element except the profit motive itself. The form of business organization, the methods of raising short-term and long-term capital funds, the decision to lease or buy plant or equipment, the advantages of purchasing or merging with other entities, and countless other business decisions are partly shaped by tax considerations. The competent CPA should have at least a general understanding of the legislative history of the federal income tax, and a knowledge of the governing principles currently applicable.

Perhaps most of all in the field of management services—as yet undefined—does the CPA find himself carried into new and exciting areas. In the measurement and communication of economic or financial data for management purposes, the certified public accountant may find himself drawn into every phase of information and control. In view of the modern trend toward forecasts and projections, he may also find himself comparatively less concerned with records of the past, and more concerned with efforts to read the future.

Accounting and financial reporting lead naturally to operating budgets, which in turn relate to standard costs, inventory control and production control. Financial forecasting and capital budgeting

involve appraisal of the reliability of sales estimates and cost projections. To minimize hunch and guesswork in business decisions the mathematical and related techniques are brought into play—statistics, linear programming, the game theory, business models. In much of this work familiarity with electronic computers will become essential. Should a new plant be built? Should a new market be invaded? Should a new line of products be produced? How many tables should the restaurant staff on different days of the week? How many trucks can the fuel-oil dealer profitably maintain? These and countless similar questions are being answered by a few CPA firms today. They may become a part of the regular practice of most CPAs tomorrow.

And so on and so forth. It is quite obvious that the demands being made on certified public accountants as a profession today require capacities, knowledge and skills far beyond those tested by the CPA examination, or in the usual educational processes which precede it.

Yet the "public image" of the certified public accountant is largely conditioned by that examination and those educational processes, and the public image undoubtedly does condition to a large extent the opportunities of the profession as a whole to expand the scope of its services.

We are back to the initial problem—what can be done to accelerate public recognition of certified public accountants as members of a learned profession, a great profession?

The missing link—higher accreditation?

The Institute's committee on long-range objectives believes that a system of higher accreditation would supply the needed incentive for self-improvement and professional development on the part of large numbers of CPAs, which in turn would raise the general level of competence. Temporarily, at least, higher accreditation might also encourage CPAs to fill in gaps left by insufficient attention to the broader aspects of the educational program preceding professional qualification. These results in turn would have an indirect effect on the public image of the profession which might speed up recognition of CPAs as members of a learned profession and expand their opportunities for service.

What does the committee mean by higher accreditation? Some form of recognition within the profession of individuals who had demonstrated superior knowledge, ability and professional competence. What is the purpose of higher accreditation? *To provide an incentive for continued study, self-improvement, and professional development by certified public accountants.*

The committee has agreed on certain basic con-

ditions governing the kind of system for higher accreditation of CPAs which might meet the most immediate needs:

1. *At the outset the accreditation would apply only to CPAs in practice*, where the need is most evident, and to teachers, who have so large a part to play in the formulation and transmission of the body of knowledge with which practitioners deal. If need should later be demonstrated for accreditation of CPAs in private and governmental activities, the program could be expanded.
2. *The system must apply to all CPA practitioners.* It must not be designed to search out only a relatively few outstanding individuals. It must be available to the general practitioner, although credit would be given for depth of knowledge in one field of work. Since the purpose is to stimulate continued study, the higher accreditation must appeal widely to local practitioners, as well as to partners and members of the staffs of larger firms.
3. *The recognition must be reasonably attainable.* If it is so difficult to attain as to be impracticable for the average practitioner with the will to improve himself, it will not serve as an incentive to study to a large proportion of the members of the profession. The qualifications, therefore, must be reasonably broad in scope. Thus, for the time being at least, the accreditation should not be directed toward identification of specialists in narrow areas of technical knowledge. This can come later, if it seems desirable.
4. *Though reasonably attainable, the accreditation must have significance.* It must be confined to certified public accountants who demonstrate the qualities of members of a learned profession, if the system is to serve its purpose. This suggests that candidates should show reasonable ability to communicate adequately, and reasonable understanding of the economic and social environment of our times. It also suggests a mastery of "core" subjects with which all professional certified public accountants should be thoroughly familiar. It suggests demonstration of advanced study and knowledge in some area. It also suggests personal qualities and conduct characteristic of a member of a learned profession.
5. *The higher accreditation must not be competitive with the CPA certificate.* It is not intended as a "super degree," but rather as a strictly intra-professional recognition of members who demonstrate the required qualities. The symbol of

accreditation would be a title and publication of one's name in a roster.

6. *The system of higher accreditation should be sponsored by the American Institute of Certified Public Accountants and administered within the Institute, since the system should be an integral part of the over-all professional structure.* Whatever type of organization may be formed for the purpose, its function should be confined to the single task of accreditation of certified public accountants who give evidence of advanced study and knowledge.

Precedents

There are precedents in other professional and vocational groups for a system of higher accreditation.

The medical profession provides the most varied and extensive examples. For example, the College of Physicians provides a mark of distinction and competence beyond the minimum requirements for a license to practice in the broad field of medicine. The specialty boards, of which there are now twenty or more, are a means of displaying competence in depth in a narrower field of practice such as ophthalmology, obstetrics, urology, etc. The Academy of General Practice provides an opportunity for the general practitioner to evidence higher competence. It is in a way an answer to the specialty boards.

The medical profession is not the only example of higher accreditation processes. The American Society of Actuaries provides incentive for continued postgraduate study by maintaining two classes of membership, Associates and Fellows. Associates are admitted after passing written examinations totaling nineteen hours, on fundamental subjects. To become a Fellow, an Associate must pass another written examination, totaling eighteen hours, in advanced subjects.

The Institute of Cost and Works Accountants, in Great Britain, introduced in 1952 a postgraduate program leading to the designation "Fellow in Management Accountancy." Candidates must have already become members of an approved accountancy organization requiring written examinations for admission (in other words, have roughly the equivalent of the CPA certificate in the United States). Then, after meeting character and experience requirements, the candidate for Fellowship must pass a twenty-hour written examination covering factory management, statistical method, advanced cost accountancy, company law, management accountancy, and economic aspects of industry and commerce.

Based on the conditions outlined earlier, and adapting the several precedents just recited to the needs of CPAs of the United States, the following program of higher accreditation is suggested for adoption by the American Institute of CPAs.

The immediate objective, it will be recalled, is to encourage advanced study and professional development on the part of CPAs—not to certify superior competence in a field of specialization, as do the specialty boards in medicine.

To this end, the Institute might organize an Academy of Certified Public Accountants, whose members would be known as Fellows, entitled to append to their names the initials FA (Fellow of the Academy)—following the CPA designation—i.e., CPA, FA.

Within the Academy, initially, there might be recognized three areas of emphasis—one in independent auditing, one in tax accounting, and one in management accounting services. These areas are broad enough to offer almost every practicing CPA an opportunity to qualify in one or another based upon principal interest or recent activity; as stated before, it is not intended at this time to accredit specialists as such.

The Academy would be chartered by the Council of the Institute, and its powers and limitations would be spelled out in detail.

Trustees would be elected by the Council for long terms of service, perhaps ten years, so as to minimize the likelihood of any “political” influences on their decisions.

Some of the trustees should be teachers of accounting who have had experience in the evaluation of technical qualifications.

The trustees of the Academy naturally would be required to be Fellows of the Academy.

The Council of the Institute might elect a certain number of “charter fellows” to the Academy on the basis of outstanding performance and reputation, in order to provide a nucleus of membership sufficient to get started, and also to give the Academy the distinction of including present leaders in its membership.

Standards of qualification

Candidates for Fellowship in the Academy should be required to give evidence of desirable professional qualities, and mastery of core subjects with which all professional certified public accountants should be familiar, and, in addition, should give evidence of advanced technical study in one of the three broad fields of practice—auditing, tax accounting, or management services.

Under “professional qualities,” requirements might cover the following:

1. Ability to communicate in acceptable English
2. A knowledge of the profession’s organization, history, and relations with society as a whole and various groups therein
3. A comprehensive understanding of professional ethics
4. A sense of social responsibility
5. Acceptable personal characteristics and behavior

Under the “core” subjects, of which all candidates would be required to show mastery, might be included:

1. A reasonable grasp of the economic, political and social structure of the United States
2. A reasonable understanding of the problems of business management, and a general understanding of modern management techniques—particularly in the area of finance and control
3. A comprehensive grasp of advanced accounting theory and principle, familiarity with current thought and unsolved problems in accounting
4. A general understanding of auditing, tax accounting, cost accounting, and management accounting principles—not to the extent of a specialist or expert in any of these areas, but to the extent which might reasonably be expected of a well-rounded general practitioner

As stated above, in addition to satisfying these basic requirements, the candidate would be expected to give evidence of advanced study in one of the three broad fields of practice.

Suggested tests of qualification

Various ways of satisfying the requirements seem practicable.

1. Accreditation should be open only to certified public accountants who are members of a state society of certified public accountants and of the American Institute of Certified Public Accountants. These memberships are some evidence of possession of professional qualities. They may be presumed to be evidence of interest in the broader aspects of the profession itself: its organization, purposes and relationships.
2. An educational standard of at least a bachelor’s degree from an accredited college or university should be required. Possibly some means should be provided of demonstrating equivalent educational background, particularly for older members who acquired their CPA certificates

when college education was not as common as it has now become.

3. At least five years satisfactory experience in public accounting or in the teaching of accounting at the college level should be required. This requirement would provide evidence of sufficient ability to survive in a professional environment.
4. Mastery of the "core" subjects might best be demonstrated by a written examination, and the possession of some of the required professional qualities might best be demonstrated through oral examination. However, there would be difficulties in developing a system of examination, at least in the initial stages. If examinations were required, in all fairness candidates should be given a syllabus or outline of the subject matter in which they should be prepared. This would take a long time to develop. Written examinations would have to be administered at geographical points convenient to applicants from all over the country. Oral examinations would have to be administered by a large panel of examiners, and it would be difficult to maintain a common standard among this group. Partly in order to avoid the delays that might be involved in developing a nation-wide system of examinations, examinations might be omitted for, say, the first five years, until the academy has been firmly established.
5. Competence in the "core" areas as well as in one of the three broad fields of practice might be indicated by theses or publications, and in the practice field by written reports of cases actually dealt with by the candidate.
6. A point system of credits might be devised. Points could be given for advanced academic degrees, for completion of continuing-education courses, attendance at graduate study conferences, articles in professional journals, papers prepared for delivery at professional meetings, or other professional achievements.
7. In any event there would be an investigation, through written communication with references, of the character and conduct of the candidate.
8. A personal interview would be indispensable to determine the personal and professional qualities of the candidate.

A temporary approach

This pattern of higher accreditation might be only a temporary approach to meet immediate needs. It could be altered in the light of future developments both in education and practice.

As specialization continued to develop in the profession, the Academy might create a number of boards to pass on the qualifications of candidates in specialty areas.

But for the time being, what is immediately needed is the simplest, broadest program, and one which is the easiest to administer—a program which will stimulate the largest number of CPAs at the earliest possible time to undertake continuous advanced study and systematic self-improvement.

Some program of this type seems necessary to speed up progress toward the ultimate objective—general recognition of certified public accountants as members of a learned profession, a great profession.

By Robert M. Trueblood

The Management Service Function in Public Accounting

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The Management Service Function in Public Accounting

Management services as an extension of the audit function, with special reference to problems of independence, the smaller practitioner, and future growth of the accounting profession

INDEPENDENT auditing results in the expression of an expert opinion on financial representations made by management. The CPA bases his opinion, in large part, on a comprehensive understanding and evaluation of management's system of internal control—the systems and procedures used to generate the financial information under evaluation. This expert knowledge of financial information systems and controls is requisite for the CPA's performance of a professional audit. The same expertness which is necessary to sound audit performance may also be logically applied by the CPA to management consulting activities.

Over the years, the performance of both the audit and the management consulting, or management service, functions has been an accepted practice of CPAs. Largely because of the clear connection between the knowledge required to perform a professional audit and the knowledge useful in management consulting activities, the staff

performing both activities was frequently the same. Today, however, developments are taking place which tend to force a more explicit delineation of audit and management service activities. The connection between the bodies of knowledge required for professional auditing and some of the newer kinds of management services may not be as clearly apparent as in the past. Certain management service activities now being performed require personnel with training and experience beyond the conventional CPA background. Furthermore, concern is increasing about some other aspects of the management service function, such as competence, independence, and ethics.

The questions and problems raised by these developments are explored in this article.

The accounting function

In an early work of the American Institute's committee on long-range objectives, Herman W. Bevis said that "the accounting function . . . deals with the measurement and communication of economic data." He further indicated that "the elements in the accounting function have to do with the observing, measuring, recording, classifying, summarizing, interpreting, reporting, and inspecting (auditing) of economic data."¹ Mr. Bevis' definition purposely avoids confining the accounting function to dollar data, or even to financial data in the broad sense. He appropriately uses the term "economic data" in order to include in the subject

*The text of this article was prepared by Mr. Trueblood, but the material and ideas were developed in sessions of the long-range objectives committee of the American Institute. The committee also includes Herman W. Bevis, chairman, Norton M. Bedford, and Clifford V. Heimbucher, with John L. Carey serving as secretary.

¹"The Accounting Function in Economic Progress," THE JOURNAL OF ACCOUNTANCY, August 1958, pp. 27-34.

matter of the accounting function all quantitative data which may be part of the control and operational mechanisms of management.

Economic data are all-pervasive within a business enterprise. Dollar information or other quantitative data originate in or are used by the several functional activities within a firm: finance (treasury), production, marketing (sales), purchasing, and personnel. The degree to which economic data (used or generated by each of the functional activities within a business) directly affect or are involved in the preparation of financial statements may vary. But the accounting function is of necessity concerned with all information systems used by a firm in its economic activity.

Because of the all-pervasive nature of economic data, the CPA must necessarily be concerned with the generation, transmission, and manipulation of these data in all operational activities of a business. The CPA must understand the production and inventory control systems in order to make an informed judgment regarding inventory valuation. He must be familiar with sales organization and procedure in order that he may audit records of income-producing transactions with customers. In the audit process, the CPA deals with economic data wherever they may be found in the organization and by whatever kind of information systems they are handled.

The CPA's relationship to the finance or treasury activities of an economic unit is unique. In this area, the CPA is particularly adept since the subject matter dealt with by finance officers or treasurers is directly related to financial statements. Cash management, borrowing arrangements, stockholder relationships, credit policies, and the like, are all financial activities which are particularly close to the accountant's interests. For this reason, the activities of the finance officer or treasurer will be considered for the purposes of this paper as being similar to the functions of the controller, since both are a part of the finance function in a business organization.



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Although the CPA's identification with the finance function is clear, his interest is not, and cannot be, appropriately restricted to those functional activities which work primarily with dollar data. The CPA works with, and must understand, information systems dealing with economic or quantitative data throughout the organization. Such data and information systems are inextricably involved in the preparation and audit of financial statements.

What are the management services?

Consulting work which follows directly from the audit process, consulting in the finance area, is the most common of the management services. Examples include considering inventory valuation policies, discussing depreciation procedures, and establishing working rules for the expensing of repairs and maintenance. By its nature, this category of management services is restricted almost totally to financial matters.

Another common area of CPA consultation involves assistance to the finance officer or the treasurer. The CPA may advise on investment or borrowing problems, credit policies, cash management, or stockholder relations. Again, the subject matter of this type of consultation relates almost entirely to financial matters having a direct effect on financial statements.

The management services also include the extension of the CPA's consulting activities to the systems and procedures related directly to accounting and finance. In performing an audit, the CPA must understand the underlying systems and procedures which produce, summarize, classify, and analyze financial information. Logically, this understanding can be used in the creation and design of such systems, as well as in their audit. Although the design process requires somewhat different talents than checking the operation of a system, the CPA's extension of his activities to consultation in the development of systems and procedures is natural. Examples of this kind of management service activity include development of cost systems, conversion of manual accounting procedures to machine procedures, and design of internal financial statements for use at differing levels of management.

A further phase in the management service function is the extension of the CPA's activity into information or control systems which are directly, but not solely, related to the accounting process. Examples of this kind of consulting activity include the design of inventory and production control methods, consulting on record-keeping problems of personnel systems, and advice on other special

purpose information systems in fields such as marketing and sales. All of these activities result from the CPA's knowledge about, and understanding of, the measurement and communication of economic data. Again, the extension of the CPA's consulting activity into these areas is natural, because of his general knowledge of the interrelationship of financial information systems with other information and control systems.

Related to this last kind of management service activity, a more recent management service development has been the expansion of consulting activities into the somewhat loosely defined areas of electronic data processing (EDP) and the management sciences.² The propriety of the CPA's interest in advanced machine methods seems clear. Many of the EDP developments are a logical evolution of more conventional machine accounting methods. The CPA's interest in the management sciences results partly from the extension of consulting activities to more broadly conceived information and control systems. More important, the CPA's interest in and concern with the management sciences result directly from management's desire to develop improved information and control systems. The trend in management practice toward using more analytical and objective tools in the decision-making process by drawing upon methodologies from the management sciences, has been one of the significant and important developments in the business world during the past fifteen or twenty years.

Beyond the appropriate sphere of management service practice by CPAs is the use of technical experts from other fields to perform consulting services which cannot be related logically either to the financial process or to broadly defined information and control systems. A few of the many possible examples of such activities are market surveys, factory layout, psychological testing, or public opinion polls.

The question of what fields are appropriate for CPA consulting is, however, a difficult one. Assume, as might well be the case, that a public accounting firm employs an expert mathematical statistician for work in audit sampling, inventory observation, and statistical procedures within the financial field. Is it appropriate for this expert, who might be qualified to undertake a public opinion

survey, to do so in the name of the public accounting firm? It seems not, unless the survey were an integral part of a larger study directly related to the finance function or to the information and control system.

Although the breadth and spread of talents required for consulting activity appropriate to the public practice of accounting are certain to expand as the management sciences are increasingly applied to the solution of business problems, a strong case can be made for limiting the use of such talents to problems relating to information and control systems involving economic data within a business enterprise. Holding out to the public the services of technical experts for projects unrelated to the accounting function, broadly defined, seems inappropriate. Although lines of demarcation are not clear in many circumstances, the distinction between an "in-house" use of technical specialists and a general "holding out" of their services to the public may be a useful one.

Problems to be explored

Current developments in the management service activities of CPAs pose a variety of problems to thoughtful practitioners today:

How broad may the management service function become within the framework of a reasonable delineation of the public practice of accounting?

Does a broadened management service definition create problems of competence on the part of the CPA?

Is the notion of independence, which underlies the audit function, compatible with the public practice of the management services?

Can the practice of management services by a CPA firm conform to the ethical rules of public accounting, as the rules presently exist?

What are the desirable rules or criteria which should govern the practice of the management services within the framework of public accounting?

Proposed definition of the function

The changing world has forced business management to reconsider many of the theories and practices which remained reasonably static from the early 1930's to the close of World War II. Increasing complexity in the basic operation of business, the advent of EDP, and the development of

² Management sciences and operations research may be considered, for the purpose of this article, as interchangeable terms. Broadly, they involve the application of the scientific problem-solving approach to business problems, and the use of methodologies and techniques taken from disciplines other than accounting, such as mathematics and other sciences. Examples of such techniques are linear programming and statistical sampling.

new techniques and methodologies for analytic problem-solving and decision-making have all worked toward an expansion of the businessman's horizons. It no longer seems likely that what has historically been regarded as the accounting discipline—the accounting and financial processes—can continue to be considered a separable area of interest peculiar to the controller or the CPA. Furthermore, the controller and the CPA must extend their interests and responsibilities to include information and control systems which pertain to all economic and quantitative data, not only to dollar information.

Consider current developments in the practice of inventory control. It is now possible that inventory control may be achieved by a single system which processes purchase orders, maintains inventory controls, records and processes sales activities, and develops information and action reports to all functional areas of the business. Control within the system may be based on mathematical formulations of economic order quantities, reorder levels, sales forecasts, or obsolescence predictions. These more refined techniques permit the manipulation of variables with greater ease and precision than did historically acceptable judgment control procedures. In such circumstances, the CPA must have some understanding of the total system in order to use any part of it. His knowledge of the over-all control mechanism must be reasonably sophisticated, else he may misunderstand or misuse even those parts of the process which relate directly to his principal areas of responsibility.

Changing role of the controller

Until recent years, the controller in some firms has regarded his interest and responsibility as related primarily to the accounting system, with perhaps only an indirect interest or concern in other related areas such as production and sales. By parallel reasoning, the auditor has been largely preoccupied with financial results and the underlying financial control systems which produced those results. If modern information and control systems serve simultaneously all functional areas of business, generating reports from a single and inter-related system, can the controller and the auditor restrict their interests and responsibilities to the financial aspects of the control system?

It seems safe to predict that the business controller will, in the future, assume one of two roles. Either the controller will expand his interests, activities, and responsibilities—as many have—to comprehend all information systems within the business enterprise, or that responsibility will be given to someone else. In the latter event, the

controller may become a sort of manager of financial data and statements. In this capacity, the controller would receive his information, as would other operating departments, from a "Director of Information Systems." Organizational changes of this nature are under study in business today.

As a result of current and foreseeable developments, not only must the controller broaden the concept of his proper function, but the CPA must do the same. The CPA's audit opinion is dependent upon an understanding of the information and control systems which produce financial statements. Continuance of a professional audit function is therefore dependent upon the ability of CPAs to expand and broaden their knowledge and understanding of information and control systems. This expanded knowledge and understanding will permit and require the CPA to broaden the scope of his management service practice.

Business problems and choices

Reasoning in another way, it has always been the objective of the CPA to assist management in the solution of business problems or to suggest alternative business choices. The CPA has discharged this responsibility by careful definition of the problem; searching out meaningful, relevant data; and suggesting alternative courses of action for management. In his approach to the solution of business problems, the CPA has drawn upon the methods of analysis and the various tools and techniques that are appropriate to the problems encountered.

Today, as in the past, it is the responsibility of the CPA to utilize all applicable bodies of knowledge in his consulting activities. However, as the science of management develops and as disciplines heretofore largely regarded as independent provide techniques applicable to business problems, the CPA must continually expand his search for methods which may be suitable in the solution of a particular problem. In this sense, advancing technology forces the CPA to broaden his perspective.

To summarize, the present and future role of the management service activity may be stated as follows:

The management service function includes, currently, all of those consulting and advisory activities in which the CPA is expert because of his understanding of: (1) the traditional accounting and financial processes of business organizations, and (2) the related information and control systems used by management in accomplishing its business objectives. As these systems become more highly integrated, the accounting process should

be recognized as also expanding. Concomitantly, the CPA must expand his horizons in order to understand and appraise, for audit purposes, the effectiveness of the interrelated control and information systems which operate throughout the business enterprise. As such information systems are broadened to include the manipulation and handling of all quantitative and other economic data, it is appropriate and desirable that the CPA consult and advise on the design, objectives, and implementation of these more broadly conceived information and control mechanisms.

Competence

One of the underlying tests of the propriety of any professional practice in relation to the public is the established competence of the practitioner to perform those services. There can be no question about the CPA's competence and expertness in all of the more traditional phases of the management service function. Currently and historically, the CPA is an expert in accounting, financial processes, and the traditional systems and procedures for information and control that underlie them. The only question about the CPA's competence in the management service function relates to the expansion of his knowledge and competence in the newer and more refined measurement methods which are being used, and which will be increasingly used, by business.

In any field of study, new frontiers emerge continuously. From the time of actual discovery, new principles and methods undergo a transition period of exploration and refinement before they are used in practice. In any field, there is always this lag between research and practice. Viewed in this way, new developments in quantitative control methods should be no more or less alarming to the CPA than was the transition from manual to punched card accounting.

New techniques

To the extent that quantitative methods are being developed from other disciplines, such as mathematics, the practicing accountant cannot assume sole responsibility for the development or the early implementation of such methods. Nonetheless, the CPA has a responsibility to point out problems in professional practice that promise hope of solution by the use of new techniques. The CPA also has the obligation to learn what such techniques can accomplish, to seek expert consultation on their use, and to evaluate their validity.

As soon as possible, the CPA must also acquire an understanding of the new bodies of knowledge,

in order to be able both to guide in the development of new techniques and also to control the technician whom he uses from time to time. This does not mean, however, that every CPA must become an expert in all bodies of knowledge which may, over time, be involved in the development of the systems of information and control to be used by business.

These general observations on competence raise some significant questions with respect to the nature of the desirable education for the CPA of the future. It would seem, for example, that the accounting profession and educational institutions should recognize a greater responsibility to concern themselves with educating a student for future practice, rather than for practice at the time the student enters the profession. Such educational problems are, however, little different for the CPA who identifies himself with the management services or for the CPA who identifies himself with the audit function. The educational transition problem is the same for each.

Outside experts

Another educational problem involves the currently practicing CPA. Changes in the educational requirements for future CPAs are not relevant to his situation. He must, like any other practicing professional, assume a personal responsibility for his self-development in terms of a changing world. He must rely upon his own ability to learn and understand new concepts by a program of reading, taking courses offered by educational institutions, and participating in the continuing educational programs of the organized profession.

An immediate, but perhaps transitory, problem is the necessity for the practicing CPA to rely upon technical experts from outside the profession in order to cope presently with changing business patterns. In the cases of EDP and the management sciences, particularly, there seems to be no accepted alternative to engaging specialists from these fields. The problems in this interim period, however, are not especially acute.

In applying their particular skills to business situations, specialists from other fields are often quite dependent upon the professional and organizational environment of the CPA and his knowledge of the business pattern. When engaged by CPAs, these technical experts are subject to the restraints and controls applicable to CPAs themselves. Organizational and control problems of the public practitioner in engaging such specialists are not more acute than those of a medical group in engaging psychologists, dentists, and other specialists.

As the educational lag diminishes in the future,

the problem of the public practitioner's dependence upon external specialists (applied mathematicians, for example) will diminish. Nonetheless, no matter how broad the educational process may become, the breadth of knowledge required on the part of a CPA who is either an auditor or a management service practitioner will undoubtedly be such that the individual CPA cannot become an expert in all areas. The CPA in public practice should, therefore, contemplate some reliance upon technical experts from outside the profession in the future—but perhaps rather less than at the present. The public practitioner's obligation, in the professional sense, is to assume responsibility for the control and discipline of the technical experts, and to acquire a broad, general understanding of the subject matter in which the expert operates.

Independence

Independence (in the sense of objectivity) is largely a frame of mind, a matter of individual intellectual integrity. Independence is that characteristic of the practicing professional which enjoins him from engaging in rationalization. Using this definition, the requirement for an independent point of view applies equally to the audit function and to the management service function. Independence should be required of any professional engaged in consultation work, whether his activity is within the framework of a public accounting firm, a sole proprietorship, or other consulting partnerships or corporations. Further, the practitioner's objectivity and independence should be subject to institutional check and surveillance, as in the case of auditing.

A more critical problem, and a question more frequently raised, is whether a CPA engaged in independent audit practice and also in management service practice, can, in fact, be independent in relation to his client. Can the CPA make management service recommendations and later audit the results of his recommendations? There are several observations pertinent to this inquiry.

1. Audit activity brings to the CPA a detailed knowledge in many areas of particular importance to his client. Since this knowledge is necessary to his participation in the audit activity, the CPA has a responsibility to consult with his client in the areas where the CPA has unique ability which underlies both audit practice and the management services.
2. The CPA who practices the management services, either separately or jointly with audit, has a responsibility to determine in

advance that his consultation and advice will produce results falling within limits acceptable to him as an auditor.

3. The management service consultant typically does not, and should not, place himself in the position of substituting his judgment for that of management. The management service consultant properly is in the position of providing and analyzing data relative to alternative choices, or in outlining the underlying structure of a decision which is to be made. Accepting or rejecting the consultant's recommendations is, of itself, a management responsibility. The situation is similar to publication of financial statements, following discussion with the auditor; the financial statements are nonetheless management's representation to the public.

To cite a precedent, all CPAs in the audit process make suggestions about the improvement of internal control, accounting procedures, and financial information. These activities are a part of the management service function. They are regarded by business and by the public, however, as the constructive aspect of auditing. They are a kind of "preventive accounting."³ In the past, there has been no question about the independence underlying this kind of consultation (or, for that matter, in the area of tax consultation). There should not now be. Refusal to make such recommendations would be denying a service reasonably expected by the client's management, its stockholders, and the business community.

Perhaps the real question of independence which is bothering the profession at the present time has to do with the future expansion of the activities and the role of the management service consultant. If, however, the auditor must necessarily extend his knowledge of broadly conceived information systems, review of these systems will become part of an audit of increased scope. Similarly, in the future as in the past, the auditor would be denying his client a service reasonably expected from a professional expert, if he refused to make suggestions for improvement. And, to repeat, all recommendations as a management service consultant must produce results which are within limits acceptable to the CPA as an auditor.

The real test of the CPA's independence stems from the professional environment in which he works. All phases of his audit work, all phases of his tax work, and all phases of his management service activity are, if challenged, subject to review, examination, and criticism by his fellow prac-

³This term is effectively used in a presently unpublished manuscript of Eric L. Kohler.

titioners. If the test of review can be applied to the work of any CPA, and if the individual CPA is willing to undergo the critical appraisal of his work by others, then it is difficult to raise serious questions of independence about the propriety of a combined auditing and management service activity.

Rules of professional conduct

Currently, there are some open questions about the application of existing rules of professional conduct, as they relate to management service practice. Each of these questions tends to diminish in importance when one looks at the management services in terms of the total professional environment of the CPA.

It has been suggested that it might be practicable or desirable to provide different ethical standards for the management service function, particularly for matters of advertising and solicitation. Resorting to such a set of double standards would seem likely, however, to tear down the standards which now relate to the audit activities of the CPA firm. Since the CPA's expertness in the management services and audit practice are inseparable, it would appear unwise to consider any adjustment of the over-all ethical considerations underlying the CPA's practice.

Suggestions to form subsidiaries or satellite partnerships, in order to segregate the management service function from the organizational framework in which audit activity is performed, also seem impractical. A subsidiary cannot divorce itself from the policies or the character of its parent. Similarly, a parent cannot deny, with conviction, responsibility for and acceptance of the policies and practices of its subsidiary.

There may well be certain areas where present standards of professional conduct have been developed without particular reference to the practice of the management services. The development of clarifying standards would undoubtedly do much to remedy current abuses, such as the preparation and distribution of elaborate brochures.

A related practice which has been the object of much criticism is the private preparation of research reports and distribution of these reports on a semi-public basis. In this connection it would seem to be the duty of the profession to provide ways and means by which members of the profession can make available to other practitioners, to educational institutions, and to the public, the results of research, without raising the possibility of ethical violations. Individuals should be encouraged to publish research findings promptly in order to stimulate critical review and discussion.

Firms, as well as individual CPAs, should be relieved of the effort and cost involved in making available to the entire profession the results of their thinking and experimentation. Perhaps the establishment of advanced technical journals and extension of publishing facilities by our professional organizations would eliminate much of the current practice of private publication.

The public accounting profession, in all its activities, has cultivated and maintained an encouragingly high degree of professional perspective with respect to professional conduct: problems of advertising, solicitation, fee-splitting, and so on. If the profession wishes to maintain identification with its high standards by the public, then the profession must take the position that the same standards, accompanied by effective policing, shall also be applicable to the management services.

Some transition problems

The management service problems of the small or local practitioner are essentially the same as those of the large firm. There may be some lag in the timing of the impact of these problems on the small practitioner in his relation to small and medium-sized businesses. But new techniques, new methodologies, new machine systems will come to small and medium businesses in the same way that tabulating machine installations and service bureaus have come in the past twenty-five years. Because of the lag in impact, the small practitioner has, perhaps, more time in which to catch up and in which to secure a more broadly trained staff. It is, however, the responsibility of the profession to provide opportunities for him to prepare himself for the problems posed by new developments.

The small practitioner does have another problem. At the present time, he probably performs relatively more management service work—accounting and financial consulting directly related to the audit—than his colleagues in larger firms. For reasons of time, cost, and flexibility, however, it is more difficult for the small practitioner to develop a staff of specialists. At times, such specialists might even now be helpful to the small practitioner's clientele. With respect to this problem, it seems that the profession itself should develop a referral service for small practitioners. Such a referral service would not only improve the total service of the profession to the public, but would also make the position of the small practitioner more secure within the accounting function.

Problems of referral, admittedly not of the same magnitude, have been solved in other professions. Many CPAs today consult freely in specific areas

of expertness for and with other firms. Although establishment of a referral system would be a complex problem from the standpoint of both the *referrer* and the *referee*, an imaginative development of a referral procedure in the management service field would undoubtedly be healthy for the entire profession.

Another transitional problem is the necessity for the profession to expand its research activity. This research activity must take several directions, over and beyond the present scope of the Accounting Principles Board. Present bodies of knowledge with regard to audit and management services must be codified, and searches must be made into other fields and disciplines for relevant material which may expand or deepen our knowledge of control mechanisms. More explicit standards for the conduct of management services consulting must be defined. The profession must expand its *basic* research into the audit and related management service processes. Even in terms of present practice, the entire nature of internal control and the requirements for acceptable information systems are not clearly delineated.

Perhaps most important, the profession must take more initiative in originating research problems bearing on the audit and management service functions. By identifying and specifying problem situations, the profession can invite the efforts not only of qualified personnel within the profession but also of competent persons in other disciplines.

The ultimate test

The definition of the management service function and the consideration of its propriety or position within the public accounting function tend always to come back to a consideration of the professional attitude. Individual subjects, independence, competence, education, professional con-

duct, may each be resolved in relation to the CPA's willingness to continue to submit to the fundamental requirements of a practicing professional.

There is little question about the CPA's independence in management service activities if the CPA works under the same standards of objectivity and intellectual integrity in the management services as he does in the audit process.

The CPA's professional competence will not be doubted by his fellow practitioners or by the public, if the CPA undertakes management service engagements on the basis of the demonstrable competence of individual members of his staff, and if the CPA is willing to assume responsibility for their competence.

A professional person tests his performance by the reaction of his peers, by the probable action of his peers, under standards of practice accepted by his peers, all within the constraints of an existing body of knowledge and in terms of a professional discipline. There can be little or no question about the propriety and desirability of the CPA's management service activities, if the CPA restricts his management consulting activities to those areas in which there is a reasonable body of knowledge, and if he is willing to test his actions against the best judgment of the practicing profession.

Basically, all the peripheral questions now being raised relate, in one way or another, to an extension of the CPA's management service activity into fields other than the traditional accounting and financial processes. If, however, similar extensions of knowledge are presently required in the auditing function and if the scope of the CPA's identification with the business pattern is, in fact, expanding, then the propriety of the expanding areas of management services by CPAs will become clear. However, it is important that CPAs recognize these questions, discuss them freely, and act upon them. Only in this way will the challenges of an expanding professional activity be met.

By Clifford V. Heimbucher

Fifty-three Jurisdictions

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Education for Accounting as a Learned Profession

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The CPA's Attest Function in Modern Society

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Fifty-three Jurisdictions

Disadvantages to the accounting profession resulting from variations in state laws with respect to regulation, education and experience, ethics, and interstate practice

THE accounting profession presently operates under a multiplicity of accounting jurisdictions. The number fifty-three is cited only as the number of state boards or other accrediting agencies in the legal sense. Actually the number is much greater if we count the American Institute of Certified Public Accountants and the state societies, all of which exercise some control over public practice. The existence of this large number of authorities for promulgating rules and defining standards has inevitably brought about a diversity of criteria for determining qualifications of admission to the profession, for issuing licenses to practice, for judging and enforcing acceptable behavior, and for granting rights to practice across jurisdictional lines. Yet it is well recognized that accounting principles and auditing standards used in carrying on the practice of public accounting are national and even international in scope. They are not based on statutes nor on any other considerations arising out of geographical boundaries. The services furnished, particularly in such fields as Federal tax matters and management services, are also national in character.

Historically this multiplicity of jurisdictions is a result of our emphasis on states rights, and also, possibly, of early actual variations in local needs and conditions.

The effects on the profession of the different standards produced by these many authorities

have received much previous consideration in piecemeal fashion, particularly with reference to such matters as the CPA examination and the education and experience requirements. The examination was finally made uniform after years of effort. Four years of intensive study were carried out before a report was issued by the Commission on Standards of Education and Experience for CPAs. Portions of that report in turn have been subjected to further study by special groups. Many other cases could be cited of constructive attention devoted to specific problems arising out of the multiplicity of jurisdictions. Not enough attention, however, has been directed to a study of the over-all long range effects on the broad basic character of the accounting practice of the future. In order to shape the form of the accounting practice of the future properly, do we need uniformity in some or many of the areas presently under the control of many authorities? If so, how can such uniformity best be achieved?

Regulatory vs. permissive statutes

At the outset, the problem of regulation of the entire accounting profession is compounded by the basic differences between the regulatory statutes in thirty-four jurisdictions and the permissive statutes in the remaining nineteen.

The basic philosophy underlying the regulatory

¹The material and ideas in this article were developed in sessions of the long-range objectives committee of the American Institute. The subject is one of a number of aspects of the accounting practice of the future now being studied by the committee, which also includes Herman W. Bevis, Chairman, Norton M. Bedford and Robert M. Trueblood, with John L. Carey serving as secretary and participant.

statutes is that the independent audit function is so affected with the public interest that all who engage in such practice should be required to meet certain statutory standards of qualification and conduct. Generally such laws attempt to bring about this result by restricting the use of public accounting titles and certain types of public practice to those who have met prescribed qualifications. Because of their restrictive nature, such laws must provide for licensing of public accountants already in practice as well as certified public accountants. The variations in the methods of licensing noncertified public accountants produce another set of diverse standards for admission to public practice.

The permissive statutes, on the other hand, provide only for granting the CPA title to those who qualify and permit anyone else to use similar titles such as "public accountant" and to perform all types of accounting services, including audits leading to opinions on financial statements.

One important consequence of this dual philosophy is that the titles CPA and PA mean different things in different jurisdictions, both legally and practically. In some states both designations constitute licenses to practice and signify that the holders have met some statutory qualifications. In other states the CPA title is a mark of distinction, not a license, and the PA title is a self-designated appellation.

This duality leads to such incongruities as that contained in the newly adopted regulations of the Small Business Administration requiring Small Business Investment Companies to submit annual financial statements accompanied by an opinion which "shall be based on an audit conducted in accordance with generally accepted auditing standards and shall be rendered by an independent certified public accountant; independent licensed public accountant, certified or licensed by a regulatory authority of a State or other political subdivision of the United States; or, in States or political subdivisions of the United States which do not

license public accountants, an independent public accountant of recognized standing with ten or more years of public accounting experience; selected or approved by SBA."

The Institute has attempted to bring order out of this chaotic condition by adopting a policy in favor of regulatory legislation. This important part of the whole problem of uniform standards has been exhaustively treated elsewhere so will not be treated in detail here.

Diversity of CPA standards

In respect of CPA standards, the rules or criteria among which jurisdictional variations exist may be considered in three categories, as follows:

1. Qualifications for the issuance of CPA certificates and licenses to practice
2. Ethics
3. Interstate rights to practice

Admission requirements

Of the three areas of education, experience and the other admission requirements, the first has received most attention. There is general recognition that the average caliber or level of competence of recruits to the profession will foreshadow to a considerable degree the ability of the profession to meet the needs of the future and to gain public acceptance as a learned profession. The need for uniformity in standards of education, experience, and examination is well recognized. The uniform examination is an accomplished fact. In the fields of education and experience, however, disparities among the many jurisdictions continue. Among the fifty-three jurisdictions we find the following variations in minimum formal educational requirements for a CPA certificate:

	<i>Number of Jurisdictions</i>	
	<i>Present</i>	<i>By 1965</i>
High school only	38	32
College—some	1	—
2 years	7	8
4 years	7	13

In many jurisdictions additional education beyond the minimum required may be substituted for a portion or all of the experience requirement.

The projected increase in the number of jurisdictions requiring four years of college education is very encouraging. However, with thirty-two jurisdictions still requiring only a high school graduation as a minimum, we will still be far short of an adequate national standard. The consequences



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of this are quite serious for the future of the profession. So long as it is possible to qualify for a CPA certificate in a large number of jurisdictions with only a high school education, there is little incentive for educators to develop adequate professional accounting curriculums and to encourage highly qualified students to undertake such a course of study. Nor is a career requiring so little formal preparation likely to attract a fair share of the intelligent youth.

The fact that a large majority of all those receiving certificates, including those in the low standard jurisdictions, are actually college graduates does not overcome the difficulty. This merely indicates that many of the state requirements are behind the times; they are still in the horse and buggy age. It nevertheless remains true that the national standard of education is high school graduation. This influences the attitude of educators, students, and the public generally.

Variations in the experience requirements of the fifty-three jurisdictions are as follows:

<i>Minimum Years Required</i>	<i>Number of Jurisdictions</i>
None	10
1	12
1½	1
2	22
3	7
4	1

More important, probably, than the variations in the period of experience required is the lack of uniformity in the type of experience accepted. In some cases any general bookkeeping experience suffices while in others at least some of the required experience must be obtained under the direction of a CPA. Even in the latter cases requirements vary because sometimes the type and variety of the work performed must conform to stated standards while other times the only requirement is that it be done in the employ of a CPA. A further diversity is introduced by the different standards of evaluation used by the fifty-three different state boards or other accrediting agencies. A special committee of the American Institute of CPAs recently developed a statement as to the type and quality of acceptable qualifying experience for the CPA certificate. If and when this statement gains general acceptance and implementation by the accrediting agencies some progress toward uniformity in this one area may be achieved.

Although these differences in experience requirements again demonstrate the lack of a national standard and thus contribute to the confusion, they are not as significant in the long run as the varia-

tions in educational requirements. Differences in competence due to inequalities in initial experience tend to disappear with the passage of time. Contrariwise, initial differences in educational achievements tend to remain fixed and to create inequalities in levels of competence which can be overcome only by unusual individual effort.

Other qualifications for the issuance of CPA certificates and for licenses to practice include citizenship, age, character, references, fees, and state residence. In all jurisdictions there is substantial similarity in all of these requirements, with one important exception. That one is the matter of defining state residence. In about half of the jurisdictions a place of business fulfills the residence requirement; in the other half it does not. This difference generally becomes important only when practice is restricted to local CPAs and licensed PAs, as will be discussed later.

Ethics

One of the essential characteristics of a profession is the existence and acceptance of a standard of conduct governing the relationships of the practitioners with clients, colleagues, and the public. In thirty-six of the fifty-three legal jurisdictions codes of professional conduct are in effect, either by statute or by regulation. The remaining seventeen do not have such codes, although in some of them a certificate may be revoked for "unprofessional conduct." In addition, the AICPA and virtually all of the state societies have adopted codes of ethics.

The only national standard of ethics is the code of professional conduct of the AICPA. Although expulsion from the Institute can have no legal effect, experience has shown that the persuasive force is very powerful. A member may be warned, suspended, or expelled not only for violation of a specific rule of conduct, but for commission of *any* act held to be discreditable to the profession. The resultant humiliation and harm to professional reputation are strong deterrents to improper conduct.

While the standards adopted by the professional organizations apply only to the members of such organizations, those enacted as a part of CPA legislation or board regulations apply to all practitioners certified by the particular jurisdiction.

Although all of the legal codes are similar, there are some significant distinctions which arise out of local interests or political considerations. For example, in California a general rule prohibiting advertising, like that contained in many other codes, was removed from the regulations by legislative action. Instead a less specific rule applicable to bus-

inences and professions generally was substituted.

Of the thirty-six legal codes of ethics only those in the twenty-four jurisdictions having regulatory laws may be considered fully enforceable in the sense that a violation may result in the revocation of the license to practice public accounting. In the other twelve jurisdictions which have statutes of the permissive type the codes of ethics do not apply to noncertified public accountants at all. In the permissive states even the former holder of a CPA certificate whose certificate has been revoked for cause may continue to practice as before, provided only that he no longer describes himself as a certified public accountant.

Legal enforcement procedures and effectiveness also vary widely from state to state, ranging from jurisdictions where forceful documented action must be brought by the public against an offending practitioner to others where vigilant policing by full-time investigators is carried on by the state authorities. All of the professional bodies have enforcement committees.

Clearly, under such circumstances, there is no legally enforceable uniformity among the standards of ethics. The harmful effects of this diversity in legal standards can be substantial. Ethics, evoking connotations of high standards of personal conduct and responsibility, are a very sensitive matter both in the eyes of the profession and of the public generally. Consequently, isolated instances of practitioners, not members of professional organizations, engaging in conduct at variance with the national code of the AICPA can reflect on the standing of the profession as a whole, even though such conduct may not be illegal in a given jurisdiction. The differences among the codes of the individual state societies and the AICPA create additional opportunities for confusion.

Interstate rights to practice

In the area of interstate practice the diversity of rules and legal rights and prohibitions reaches an absurdity.

The form of regulatory public accountancy bill approved by the committee on state legislation of the American Institute of CPAs incorporates the following basic principles relating to interstate matters.

1. Certificates should be issued to out-of-state CPAs on an equivalent standards basis, not by reciprocal agreements. The residence requirement for such a certificate should be satisfied by personal domicile, a place of business, or regular employment within the state.
2. An accounting firm should be permitted to use

the CPA title if its local partners hold local certificates and every other partner holds a certificate from some state.

3. A CPA should have full freedom to enter any state to carry out engagements incident to his regular practice.
4. Reasonable provision should be made for the use of his title and the practice of his profession by a holder of a foreign certificate or license.

None of these four principles can be said to have reached a status approaching a national standard.

It is difficult to summarize precisely the facts relating to the issuance of certificates by reciprocity. Often the accrediting agency has discretionary authority to issue certificates to qualified CPAs of other states. In some cases this discretion is exercised by the establishment of unwritten reciprocal arrangements which are subject to change. It appears, however, that only twenty-one states issue certificates on the basis of equivalent standards. The others issue them only on the basis of reciprocal privilege. In twenty-four jurisdictions a place of business within the state does not fulfill the residence requirement, actual personal domicile being mandatory. Further artificial bars to reciprocity certificates are erected by means of detailed course credit specifications to meet the equivalent educational requirements. In many cases provisions of this kind, though petty, constitute a serious obstacle.

Use of CPA title

Restrictions in many jurisdictions prevent well-known accounting firms from using the CPA designation. Eight jurisdictions have no restrictions on the use of the title by firms. Seven require that, in order to use the CPA title, all partners practicing within the state be local CPAs. Seven others require, in addition, that each resident manager be a local CPA and that each nonresident partner be a CPA of some state. Thirteen others require, still further, that one of the general partners possess a local certificate.

Eighteen jurisdictions adopt the extreme position that a firm may not use the CPA designation unless every partner of the firm holds a certificate from that state. Nine of these are states with regulatory laws so that a firm cannot even practice as a PA firm unless every partner is registered locally, either as a CPA or a PA. To compound the confusion further, nine of the eighteen are among the twenty-four previously mentioned that do not accept a place of business within the state as satisfying the residence requirement, thus, in effect, restricting the use of the CPA title to firms all of whose part-

ners actually reside, or once resided, within the state.

Provisions for temporary practice by CPAs of other states vary widely in the different jurisdictions. In some states, such temporary practice is freely permitted. In others, registration, payment of fees, and fulfillment of certain qualifications are required, all of varying degrees of difficulty or onerousness. About twenty jurisdictions make no provision for such temporary practice. Most of these are states having accounting laws of the permissive type so that the effect of this deficiency is merely to deny the use of the CPA title to an out-of-state CPA. A few of them, however, are regulatory states. In such cases an auditor entering the state on a temporary engagement may not use either the CPA or PA title and, presumably, may not express opinions or issue audit reports within the state.

In some states where temporary practice is not permitted, it may be possible to obtain a local CPA certificate by reciprocity, provided the residence requirements can be met. In twelve of these jurisdictions, however, a place of business does not fulfill the residence requirement, actual personal domicile being mandatory. In such cases a CPA of an adjoining state can never qualify for practice as a CPA, even temporarily, unless he moves his residence.

In the matter of recognition for foreign accountants, the recommendations embodied in the model form bill of the AICPA include provision for the issuance of CPA certificates to qualified foreign accountants and also for temporary practice by such persons. Several states do provide for such certificates but very few permit accountants of other countries to register and practice temporarily under their own titles.

Need for uniformity

It is significant to note that although the practitioners qualify for their certificates or licenses under a wide diversity of standards in the various jurisdictions, they are all being accredited to do the same things. Although the legal codes of ethics by which they are regulated differ and the interstate arrangements under which they may operate vary, they are all expected to conform to the same generally accepted accounting principles and auditing standards.

Early differences between states in the availability of educational facilities, as well as in the type of services performed in industrialized areas in contrast to rural areas, may have produced some of the present variations in standards. If so, the reasons for these differences have long been outgrown by the rapid pace of development and speed of

communication in recent years. Variations in the services performed by CPAs today result from other factors, such as specialization, varying levels of personal competence, and size of practice rather than from jurisdictional location.

The AICPA and its members are presently expending large amounts of top level talent and funds through the Accounting Principles Board in an effort to speed up the development of generally accepted accounting principles. It is expected that these principles, which know no state boundaries, when developed and published will have nationwide application.

That there is a need for uniformity in qualifications to enter the profession appears to be generally acknowledged. The accomplishment of the uniform examination is itself evidence of this. However, the variations in the terms of education and experience are so great that it is almost impossible to prepare an adequate examination consistent with these differing standards. The result is a fairly high level of failure by candidates.

Variations in requirements

Substantial variations in requirements for the CPA certificate tend to create confusion as to what the certificate really means. Many other effects harmful to the profession result from this disparity. Educators may be motivated not to develop high level educational opportunities. This may contribute to the diversion of promising students to other more clearly defined professions. A wide range of levels of competence within the profession delays public acceptance of it as a learned profession.

The variations in legal standards of ethics give rise to similar undesirable effects, such as leading the public and members of other professions to think of all CPAs in terms of a lowest common denominator.

There is a further, more subtle effect which may be very harmful in the long run. There is a danger that the wide disparity of competence among the whole body of practitioners may lower our sights for the future on such matters as standards of performance and continuing education. In other words, we may become all too content to try to raise the level of competence of the lowest practitioners up to a minimum basis, instead of being able to start our improvement efforts at that point and aiming for something higher.

The public practice of CPAs is basically interstate in character. The increasing size of large companies and the extension of their activities across state lines with branch factories, stores, warehouses, and sales agencies with their transportation and communication problems accentuate this character.

Investment capital, products, taxes, rate regulation, securities controls, and consulting services of many kinds all move freely across state lines. If our states had tariff barriers, import restrictions, or different currencies, a different situation might obtain.

Jurisdictional restrictions against free interstate movement of accounting services are detrimental to the entire profession. Such obstacles curtail the freedom of businessmen to select their own advisers. This is a serious defect because it implies that our services and our relationships with clients are not personal and based wholly on free choice.

It should be noted that restrictions against interstate practice apply not only to national firms; they also hamper any local practitioner who wishes to practice across a state line. Furthermore, such restrictions tend to isolate the practitioners in the "protected" jurisdiction from free interchange of ideas and opportunities for personal development arising out of a wholesome professional fellowship on a national scale.

The claim is sometimes advanced that barriers against free interstate practice and use of titles are necessary in order to protect the public from practice by CPAs who obtained their certificates in states having lower entrance requirements. Actually quite the reverse appears to be the case. As an example, of the twenty states which do not provide for temporary interstate practice by out-of-state CPAs, only two require education above the high school level for issuance of their own certificates. Most of these twenty jurisdictions have permissive type laws so the practical effect is merely to deny the use of the CPA title to CPAs of other states which have educational requirements at least as high as those of the state imposing the restriction. This suggests that it is not the public which is being safeguarded.

A second reason based on personal economic grounds rather than on social philosophical arguments is often advanced, namely that such restrictions are necessary in order to protect the small local practitioner from encroachments on his practice by large multioffice firms from out of the state.

Future of the small firm

There is no doubt that the rapid growth of the large firms raises important questions as to the shape of the profession of the future. The small firms face serious obstacles to continued growth. First, their larger clients tend to merge into large national industries already being served by national accounting firms. Second, others of their larger clients develop a need for some of the specialized service which only a larger firm is equipped to offer. It has been suggested that closer co-operation be-

tween national and local firms could produce a climate in which small firms might have a better opportunity to grow and to continue to contribute to the advancement of the profession. There is a crying need for a comprehensive study of this problem and the development of a program for the future.

No comprehensive statistics relating directly to the effect of interstate practice restrictions on the relative growth of local and national firms appear to be available. One interesting comparison has been made in California, a state which issues reciprocity certificates and permits temporary interstate practice on a fairly liberal basis. A study of sixty-one local firm offices and twenty-seven offices of thirteen national firms shows the following relative changes in gross fees between 1951 and 1956. Seventy-six per cent of the local offices reporting and all of the national offices were located in the three largest metropolitan areas of the state.

<i>Percentage Increase in Gross Fees</i>	<i>Percentage of Total Offices</i>	
	<i>Local</i>	<i>National</i>
Over 400%	4.9%	—%
201 to 400%	6.6	3.7
	11.5	3.7
101 to 200%	24.6	22.3
	36.1	26.0
51 to 100%	14.8	33.3
	50.9	59.3
21 to 50%	37.7	33.3
	88.6	92.6
6 to 20%	4.9	7.4
	93.5	100.0
Under 6%	6.5	—
	100.0%	100.0%

This comparison shows that during the five-year period 36.1 per cent of the local firm offices more than doubled their revenues while only 26 per cent of those of the national firms did so. This limited evidence would indicate that competent local practitioners are able to hold their own against the national firms in a jurisdiction which does not restrict interstate practice.

The small local firms will continue to flourish and fulfill their important role in the future development of the profession. But this will not depend upon the principle of jurisdictional obstacles to free interstate practice. In the first place, such restrictions are contrary to the public interest because they inhibit freedom of choice and may lead to economic waste. Secondly, it is quite likely that these barriers can be more harmful to individual

practitioners and to local firms than to larger organizations which already have offices established in many states.

There are indications that the larger firms are generally able to find a way to comply with any legal requirement when they so desire. A restrictive law can often be met, for example, by the formation of a separate local partnership using the same name as that of the parent firm. Another possible means of meeting other laws is for a firm to hire a local CPA as a branch manager and then install one of its partners in the office, as an employee. After the latter has served the required period as an employee he may obtain a reciprocal local certificate and then become the resident partner. Such circumventions could be criticized if the laws themselves were not subject to criticism.

Laws which unfairly restrict free interstate practice and thus invite subterfuges in order to achieve technical compliance cannot serve the best interests of the profession.

These restrictions against the use of the CPA title may operate more severely against smaller firms which are less likely to have among their partners one who is qualified in another state in which they would like to operate or which have less capacity to go the long way around restrictions. Thus, a combination of the restriction against the use of the CPA title and the reciprocity requirement can prevent such a firm from opening an office if it does not already have a partner with a local certificate. Consequently, the firm is caught in a vicious circle since none of its partners can qualify for a reciprocal certificate because the firm does not have a local office.

The public image of the CPA

Members of the profession, the AICPA, and the state societies all have expended much in time and resources in improving the public image of the CPA title. Paradoxically, many prominent firms may not use that title in some jurisdictions. This produces a feed-back effect which is not beneficial. Because of the restrictions in some jurisdictions many leading firms refrain from the use of the CPA title in all areas. The auditors of only thirty-one of more than six hundred companies with published annual reports refer to themselves as CPAs. Therefore, because of legislative restrictions, an important public relations advantage for the entire profession is lost. And it is the smaller practitioners who have the most to gain from the wider use of the CPA title.

The rising industrial efficiency and prosperity of the nations of the European Common Market, the outer seven, and of other nations in the Western

Community are causing far reaching changes in the attitudes of American industry toward world trade, foreign subsidiaries, international joint ventures, and mutual know-how exchanges. These widened horizons for American business are, of course, facilitated by the rapid transportation and communication facilities of the jet age. One of the really new characteristics of this internationalism is that it is reaching down to the medium and even small units of American industry. This offers a challenge and an opportunity to all practitioners to increase their services to their clients. So long as we have anachronistic restrictions among the states within our own nation and a lack of uniform national standards, are we prepared to cope with the inescapable variations involved in international practice? Furthermore, how can we expect other nations to grant us rights to practice abroad if our own laws contain undue restrictions against practice by their nationals in the United States?

Meeting the need

One device by which uniform national standards in these areas might conceivably be achieved in one fell swoop would be by superimposing a new law on top of those of the fifty-three jurisdictions; that is, by nationalizing the CPA certificate.

Such a solution would involve questions of constitutional law which cannot be resolved here. Nevertheless, the ingenuity of man which compressed time and distance has also brought about a concomitant extension of Federal regulation over matters formerly considered to be solely under local sovereignty. It is not unreasonable to assume that Federal regulation of the accounting profession could be legally justified in view of the interstate operations of a substantial percentage of the clients and, more significantly, of the services provided to the ever increasing number of business units which operate under Federal regulation of some kind.

Assuming that a national CPA certificate is legally possible, is it desirable? It would bring about uniform standards for accreditation, ethics, and policing of competence. It would remove all impediments to interstate practice. It would enable colleges to gear their programs to a single educational standard. On the other hand, is it not likely that all of these goals, even if the legal hurdles were overcome, would turn out to be illusory?

The established laws of the fifty-three jurisdictions could not be superseded all at once. A gradual transition would be necessary.

Experience has shown that any regulatory legislation tends to start at a relatively low level. This is necessary in order to protect established interests and to render it politically palatable to as wide a

group as possible. Therefore, it is quite likely that the standards set up for Federal accreditation would be based at or below the mean level of the present fifty-three jurisdictions. This is too high a price to pay for uniformity.

Furthermore, nationalization of the CPA certificate by legal means could result in lessened control over the standards by the practitioners themselves with greater emphasis being placed on political considerations. Although this has already happened at times in some of the state jurisdictions, this is not so damaging because there are always some states in which the political climate is receptive to efforts to raise standards. In an extreme situation legal nationalization of accreditation could result in CPAs becoming, in effect, civil servants of the government, as has been the tendency in some other countries.

If, then, a superlaw is not the means by which to achieve the desired end of uniform high standards, some way must be found to reach this end within the framework of the fifty-three jurisdictions. We must rely on such forces and tools as co-operation, discussion, persuasion, and possibly ridicule. This is essentially what we have been and are now doing. Many individuals and groups within the profession are devoting time and effort to raising and unifying the standards of the many jurisdictions and are making slow but steady forward progress. Why is this program so slow? What is wrong with the approach?

Shortcomings of current efforts

A study of the methods being followed reveals two gaps which may be significant. First, there is no single high level authoritative body working on the whole problem at once. Many groups are working on individual facets of the situation. The Board of Examiners has developed an examination which has achieved acceptance in all jurisdictions. Yet the percentage of examinees who pass, classified by jurisdictions, recently ranged from 15 per cent to 52 per cent. Coping with this problem, which is clearly due to lack of uniformity in educational and other standards, is outside the scope of the work of the Board of Examiners. The Commission on Standards of Education and Experience produced a valuable document in these two areas, but touched only incidentally on such matters as ethics and interstate practice. No real implementation of the recommendations in the report has taken place. The committee on state legislation has developed a model regulatory bill for reference purposes, but is not charged with making a complete presentation of the desired standards, and has not specifically advocated adoption of the model bill.

There is no one authoritative body that has documented and submitted to the profession and to the public a forceful statement of the anomaly of a unified profession serving a unified nation in the modern world under a diversity of standards governing basic attributes of the profession. Consequently, the full impact of the absurdity of the situation and how it works to the long-term disadvantage of all concerned is lost.

A second gap which appears to exist in the methods being followed is that most of the groups which have worked or are working on piecemeal portions of the problem are study groups and not action groups. In almost every instance the group concerned has produced a sound document and then either disbanded or merely held itself ready to offer assistance if requested.

What is needed is a new look at the problem by an agency capable of rising above the methods and framework currently in use and dedicated to putting the whole problem in focus and to taking action in solving it.

Need for AICPA action

The AICPA is the only organization which represents CPAs on a national basis and which has an obligation to consider national CPA problems. As long ago as 1930 the Institute published a declaration of policy which stated in part:

It is the carefully considered opinion of the American Institute of Accountants that accountancy, unlike some other professions, is national rather than local in character. The Institute desires that the American business public recognize certified public accountants as accredited members of a unified profession, regardless of the part of the country where they happen to practice. It believes that nation-wide acceptance of certified public accountants as qualified professional practitioners should be the ideal of the profession as a whole.

Not only is the AICPA the national organization of the profession but its governing body, the Council, is truly representative of all the states. The Council is composed of about 190 members, including the 53 presidents of the state societies and an additional 101 members elected on a jurisdictional representational basis. It is the co-ordinator, the forum, the only place where well-informed members of the profession from all jurisdictions can get together in a co-operative forward-looking spirit to make the decisions which will determine the shape of the profession of the future.

Since the publication of the 1930 declaration of policy on the national character of the profession, the Council has never lost sight of that objective. Implementation has taken the form of making rec-

ommendations and adopting policy statements such as those outlined below:

1953—Council approved a report of the committee on interstate practice recommending specific principles to be written into laws to promote uniformity in free interstate practice and use of the CPA title.

1956—Council abandoned a neutral position on regulatory vs. permissive laws and adopted a policy favoring legislation of the regulatory type. Council also approved a policy statement advocating freedom of movement in interstate practice.

1960—Council adopted the following proposal submitted by the committee on long range objectives: "It is an objective of the Institute that by voluntary agreement—the plans, programs, procedures and activities of the state societies and the Institute be co-ordinated to the fullest extent possible, and their respective areas of responsibility be clearly delineated; and in particular that the state societies and the Institute adopt a uniform code of ethics and enforcement procedures."

Council also approved an amendment to the by-laws of the Institute to permit any state society which desired to do so to enter into a voluntary agreement with the Institute to establish concurrent membership as a requirement for membership in both organizations.

1961—Council authorized the committee on state legislation to initiate a program of informing state societies of deviations from Institute policy and from the form bill, and to encourage them to initiate legislation to amend accountancy statutes to conform to the model bill in the following areas:

1. The use of the CPA title by firms
2. Temporary practice provisions
3. Issuance of reciprocal certificates
4. Practice by foreign accountants

These events show that the AICPA has been growing increasingly aware of the need for action on this problem but has not yet co-ordinated all

phases of it. The Institute's own policies must be discussed and further refined and incorporated into the model bill. This cannot be done by any one of the committees currently charged with working on separate facets of the problem. The job should not be done by the committee on state legislation alone because the ground covered in a state accountancy law is the concern of many other groups. For example, the experience requirement alone must be studied from several different angles. The committee on qualifying experience for the CPA certificate can discuss it from the point of view of what is ultimately desirable, the committee on state legislation from the point of view of what is politically feasible, and the committee on relations with public accountants from the point of view of developing a joint policy with the public accountants.

Similarly, the educational requirements should be studied by a number of committees, including those on state legislation, relations with universities, and members in education. The area where the quickest progress might be achieved is in the reduction of variations between the codes of ethics of the Institute and of the state societies. This involves the committee on relations with state societies, among others.

The Council of the AICPA is the only agency of the organized profession which can bring about the required co-ordination of the activities of the many groups concerned. The AICPA is the only organization of CPAs which can deal with a national problem. While the Council, composed as it is of representatives from all states, has understandably been considerate of both states rights philosophies and other aspects of local self-determination, it must now see in these the possibility of long-run injury to the CPA national designation.

Therefore, the Council must close the two gaps which have hampered efforts in solving the problem of fifty-three jurisdictions up to now. One gap has been the absence of a single authoritative body working on all facets of the whole problem. The other has been the lack of an effective means of initiating action. To close these the Council must immediately set up machinery to consolidate the many aspects of the problem into a single package and to take vigorous action to bring about a solution. This must inevitably include the unpleasant task of identifying to the entire profession those laws, regulations, rules, and practices which are in need of revision.

Education for Accounting as a Learned Profession

The text of this article was prepared by Professor Bedford, but the material and ideas were developed in sessions of the long-range objectives committee of the American Institute. The committee also includes Herman W. Bevis, chairman, Clifford V. Heimbucher, and Robert M. Trueblood, with John L. Carey serving as secretary. The article has been reviewed by a large number of university educators.

THERE are reasons to believe the profession of accountancy is approaching a stage where it will come to be recognized as one of the great professions of our society. But the forces which appear to be contributing to this development are but dimly seen even by the leaders of the profession. Sudden insights into the nature of the emerging technology, such as that revealed by Herman Bevis in August, 1958, in the JOURNAL OF ACCOUNTANCY when he observed that "the accounting function . . . deals with the measurement and communication of economic data," serve as guides to the general direction of the growth of the profession. The proposal by Carl Devine in July, 1960, in the *Accounting Review* that the scope of accounting theory might well extend into such areas as (1) logical structures and deductive systems, (2) measurement and induction, (3) behavioral relations, and (4) welfare and normative responsibilities, represents a broadened view of the scope

for the study of accounting at higher levels. The recent call by John L. Carey, in the March 1961 issue of the JOURNAL OF ACCOUNTANCY, for higher accreditation for certified public accountants reveals the extent to which the practice of accountancy requires a competence beyond that tested by the CPA examination and must be interpreted by educators to imply a need for improvement in the quality of university and post-university education for the profession of accountancy. Insights such as these suggest an emerging learned profession changing in its scope of activity and for which additional educational substance is appropriate.

Direct evidence of the growth of the profession is provided by the increase in the number of certified public accountants in all parts of the economy. Evidence of the expanding scope of accountancy is provided by the growth of the management services area and the increased interest in management science (operations research) by accountants. Evidence of the higher status to which the profession is moving exists in the number of high public and corporate offices held by members of the profession.

Accounting growth in a complex economy

In a somewhat abstract sense it may be suggested that as the complexity of the economy increases with the widespread growth of technology, the function of measuring and communicating economic data must inevitably grow. It may not be inappropriate to suggest that just as the growth

of the complexities of civilization created the need for law and the legal profession, so a still more complex economy will increase the importance of the function of measuring and communicating economic data and the profession of accountancy. Widespread holding of corporate securities, large business organizations with involved management structures, the increased use of credit, and improved managerial planning and control measurement techniques suggest some empirical support for the observation that the measurement and communication function will increasingly become more important to our economy.

Recent developments in applied mathematics and probability theory, which have been rather well received by the business world, point to the advancements in the measurement and communication function. The amazing growth of electronic data processing must also be included with any compilation of evidence to show that the accounting function is growing both in scope of activity and in the quantity of work performed. Suggestions from mathematicians that we may expect further advances in the use of mathematical methods in developing economic data for decision-making indicate that the tools to be available to the accounting profession may well encourage further expansion in the measurement and communication of economic data.

Changing economic activity

A survey of the activities of leaders of the profession in the area of financial planning, coupled with a growing need for sound financial advice at all levels, suggest that the accounting function will expand in this direction. Statistics which reveal the main cause of failure of small businesses to be inadequate financial planning are evidence of the need for improvement in our economy in that respect. It has also been suggested that many of the financial problems of individuals could be

solved with sound financial planning and control methods.

The changing character of the underlying forces motivating economic activity adds further support for the suggestion that accountancy may well become one of the great professions of our times. While the nature of the changes is far from clear, there have been observations by well informed people to the effect that the maximization of income for stockholders is no longer the only force motivating economic activity in the public corporations. In 1948, Oswald Knauth (*Managerial Enterprise*) observed that the economy had changed from a free enterprise, with an emphasis on the goal of immediate profit, to managerial enterprise, with the goal of "a stable and adjustable system—the functioning of which creates profits" (p. 33). In 1956, (*Business Practices, Trade Position, and Competition*) he called attention to the importance of the survival motive in business practice and stated that "management concentrates on the maintenance of an equilibrium in motion among all its elements—not on profit alone" (p. 169). Adolf A. Berle (*Power Without Property*) has called to our attention the increasing elimination of proprietary ownership from control of the larger corporations and its replacement by a power system. He states, "the corporate system is not substantially affected by theoretical ability of stockholders to change management" (p. 165). Thus, we have in our economy a growing management in the main responsible to society as a whole for its actions.

Nonincome objectives

Relieved to some extent of responsibility for income maximization for stockholders, top managements of the large public corporations have accepted other motivating objectives. The nature of these other motivating objectives has not been clearly distinguished. But George Stocking has pointed out that corporate executives acknowledge obligations to the corporation itself, its shareholders, its employees, the consuming public, and the whole economy, and that business leaders think of themselves as stewards in whose hands rests the economic welfare of society (*American Economic Review*, March, 1959). This same general view has been expressed by other competent observers of business practice. While the nature of these obligations in terms of specific business motives has not been fully explored, it is reasonable to assume that any statement of general company objectives would include such motives as creating a desirable image of the company and our economic way of life in the mind of the general public, providing a means of satisfying the desire for prestige and



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recognition by officers and employees of the company, and perhaps a variety of unarticulated motives which are suspected to underlie certain business decisions.

Satisfactory means do not now exist for measuring and communicating data on the success of business activities resulting from motives other than income maximization. Therefore, no means have been developed for auditing the effectiveness with which a company has attained nonincome objectives. In fact, it is not yet clear how progress toward most of such objectives could be measured and communicated. Also, it is difficult to comprehend that the nonincome motives are anything more than intermediate objectives, the way points along the road to the long-run objective of income maximization. But it may well be that measurement and communication of economic data reflecting the effectiveness with which a company has attained nonincome objectives, whether such objectives are intermediate to the long-range income objective or ends in themselves, will become a responsibility of someone independent of the organization. Why not the CPA?

Challenge to the training process

One implication of the evidence supporting the position that the accounting profession is destined for growth in scope of activity and for a more widely recognized public status is that the technical knowledge of all professional accountants should be expanded. But a mere increase in the technical equipment of professional accountants is only part of the qualifications which the professional accountant of the future should have. Effective measurement and communication of economic data at the level to which the evidence suggests the profession is moving will require a broad acquaintance with all parts of our social and economic life. It will require an educational program suitable for a learned profession having substantial responsibilities for the development and advancement of our society. As yet there is no agreement on the common body of knowledge which represents the profession of accountancy, but there should be. There should be even greater research and study to develop, describe, and communicate the knowledge needed for the successful practice of professional accounting.

Education for a learned profession involves the development of an ethical and cultured person aware of his responsibilities as a citizen and sufficiently motivated to educate himself so he may carry out these responsibilities; capable of clear and imaginative thinking in everyday activity, as well as in research, coupled with the ability for

effective oral and written communication; and possessing a technical knowledge derived from rigorous intellectual study which is of use to society generally. By this text current educational efforts for the profession appear to need improvement in the following aspects:

1. There is need for an organized educational process for the teaching of ethics in such a way as to inspire ethical conduct. It has been stated many times by leaders of the accounting profession that integrity, independence, and professional conduct are the outstanding characteristics of the profession of the certified public accountant. Some of the more enthusiastic leaders have even suggested that loss of this feature of the profession would destroy the profession. While John L. Carey's signal contribution (*Professional Ethics of Certified Public Accountants*) and the statements of rules of professional conduct by the American Institute and state CPA societies indicate the general nature of the problem, it would appear that such an important feature of the profession should receive a much greater educational effort than it has in the past.
2. There is need for an improvement in the educational program aimed at the development of a cultured professional man motivated to assume social responsibilities and dedicated to a life of continuing study. As the profession of accountancy moves into an expanded function in the measurement and communication of economic data, it seems evident that the accountant's contacts with other members of the business world and society in general will grow. Effective performance in this broad environment will require, in addition to the technical education, a broad liberal education kept up-to-date through continuous study. While many members of the profession now possess these educational qualifications, they have often acquired them more on a self-education basis than they have through an organized professional education program. The objective of this type of educational program would be to develop the professional accountant as one capable of effective communication with others to the end that he will make a significant contribution to all parts of our society. This aspect of the educational program for the profession should receive greater organized attention in the future.
3. The technical education program needs to be expanded in scope and modernized in quality along the lines of newer methods for measuring and communicating economic data. In times of

rapid social, technical, and economic changes, members of the profession must be able to adjust to a continuously changing new operating environment. The present is such a time of change. So great and so rapid is the change that many professions find it difficult to keep up with the impact of the change on their profession. Illustrative of this situation is the observation by Dr. Thomas Stelson, head of the department of civil engineering at Carnegie Institute of Technology, that so rapidly is modern technology advancing in the engineering field that unless a graduate of ten years ago has spent ten per cent of his time keeping up with the new developments, he cannot compete in value with a new graduate. While the impact of the new developments on the accounting profession has not yet become so striking as it has for civil engineers, the impact has been substantial, and there are reasons to think it will be more substantial in the future. It therefore seems reasonable to propose an expansion of the technical education program for professional accountants, with greater emphasis on the development of clear and imaginative thinking to improve the existing procedures of accounting technology.

4. While the profession has exhibited interest in research, there is a need to tie the research at the practical level back to research in mathematical methods and developments in the social sciences in the way the medical profession has related its research to such disciplines as chemistry and other physical sciences. Accounting has aspects of an applied social science in the sense that it is concerned with the measurement and communication of information on the psychological and sociological forces motivating economic activity, and it seems that the basic postulates underlying accounting procedures must rest in these behavioral sciences. Because accounting is also a measurement process, research in the application of mathematics to accounting problems appears to have promise. There has been an explosion in the knowledge of the behavioral sciences and mathematics which appears to have an application to accounting theory and practice, and it seems appropriate to suggest that the educational program for the accounting profession should involve study and research at this level.

Nature of the educational gap

A reasonable reaction to the list of educational needs of the profession would be to ask how a

profession having such unfilled educational needs could have grown to the stature which the evidence suggests it already has. One answer would be to assert that education has nothing to do with the process of developing a great profession. A more plausible explanation would be that the formal educational process has not kept up with the leaders of the profession. Had the activities and attitudes of men such as George O. May, Robert H. Montgomery and William A. Paton been used as a basis for the education of members of the profession, the educational needs might not be as great as they appear to be.

Current leaders of the profession exhibit educational attainments well beyond those provided by the minimum or even the typical education program for the profession as a whole, but this appears to result from a lifelong self-education process rather than from any formal program. Actually, the educational gap between the extremes within the profession appears to be so substantial that it may represent the greatest problem of the profession today. The extremes are illustrated by the complaint of one marginal member of the profession that college education for accountants is harmful because it causes starting salaries to be too high, in contrast to the expressed regret of a leading CPA that a proposed program on human relations for accountants has not been well supported by members of the profession.

Developing the university curriculum

At the university level, the educational gap is reflected in the difficulty encountered by educators when they attempt to articulate satisfactorily the type of educational program needed by the profession. As Professor Herbert Miller expressed the problem, "If the practitioners will tell the professors what kind of man they want, then we can go about developing a university curriculum for the profession of accountancy." To university educators the fundamental problem is, "What kind of man do we want the professional accountant to be?" The question, "How to develop the type of man wanted?" is secondary and far less difficult. Some feel quite strongly that responsibility for defining the man needed for the profession is the responsibility of educators. Until Professor Miller's question is answered by someone, if it ever can be answered, educators must make decisions on curriculum without adequate facts for the decision. The content of the CPA examination has been accepted by some university educators as representing the type of technical education wanted by the profession. Of course, most university educators recognize that

teaching students to pass the CPA examination is much too narrow an objective, but in the main they have had to depend on intuition, informal observations, and general impressions in developing a broader university professional education program. Yet what the practitioners of the future are taught is what the profession will become in the future. The need for a statement of what the needs of the profession are likely to be, whether it is the responsibility of educators, practitioners, or both, is most important in developing the university educational program.

Solution to the educational gap

A solution to the educational gap is not easy to provide. There are those who will not accept observable evidence and will point with pride to the accomplishments of the profession in the past and suggest, "We have been doing all right. What is all the excitement about?" In part this is a defensive attitude. Some will interpret the contention that a serious educational gap exists to mean that the small practitioner in a small town is holding back the profession. In fact, however, the status of the CPA in the small community may be that of one of the leaders of the community and in no way representative of an educational gap in the profession. If the educational need of the profession is to develop accountants who can perform effectively in the field of economic and social development, the small practitioner is often better educated for his environment than the partner in the large firm in the large community.

Overcoming emotional reactions to any proposal for means of correcting an educational gap can be achieved only by calling upon every member of the profession to consider such proposals carefully in an objective manner.

There are those who sincerely believe that the qualities needed by members of the profession do not lend themselves to the educational process and represent inherited or environmental capacities and that proper recruitment for the profession will solve the problem. But the vast majority of the leaders of the profession assume the solution should be found in the educational process. Education cannot, of course, raise every present and prospective member of the profession to the same level of competence. It can only narrow the gap. Though universities exist to further its development, this type of education is essentially self-education. The profession itself, therefore, must assume a responsibility to motivate and encourage its members to develop this type of education.

At the university level, the educational curricula of the schools of business are being re-

examined at the present time and, if the profession of accountancy is to request an improvement in the university educational program, it seems desirable that such a request be articulated as soon as possible.

Areas of accounting study

Articulation of the educational needs of a profession is most difficult and different views of the needs will always exist. But there are a number of general statements which may be made. First, there seems to be a growing belief that the development of the intellectual aspects of the profession represents the next big hurdle which the profession must cross if it is to continue its growth on a sound basis. Second, it is generally recognized that the educational aspects of accountancy as a learned profession involve three areas of study:

1. The collegiate level, including postgraduate professional work in accounting
2. The transitional education of the young man who has just entered practice
3. The continuing education required by the mature practitioner of today, educated in an earlier time, to come abreast of the technological requirements of current practice due to developments of new accounting measurements

The last two areas have received the attention of individual practitioners and the organized profession. Educational programs which have resulted may be classified as follows:

1. The programs provided by the firm in the form of staff training classes and on-the-job training under a direct supervisor
2. The professional development program of the American Institute of Certified Public Accountants to advance the professional competence of the profession

One may conclude that education for the profession of accountancy, in addition to self-education efforts involving constant reading and study of technical, cultural, artistic, scientific, political, and economic topics and interest in the whole field of knowledge, is provided from four sources:

1. The collegiate professional and preprofessional program
2. Staff training classes
3. On-the-job training programs
4. The continuing education program of the Ameri-

can Institute of Certified Public Accountants, possibly supplemented by executive development-type programs at universities

Practically, there is great variety in the education and training provided by each of these sources. Some universities provide training which might better be performed by a staff training program. Some firms have no formal staff training programs and rely heavily on university and on-the-job training. Despite the variations, however, it is reasonable to suggest that a consensus does exist and that it is possible to distinguish the four general areas of responsibility as follows:

1. The university should concentrate on general education, the preprofessional program and a professional program centered on the general principles and concepts of the technology. It should be directed to the development of critical and analytical thinking, with only those procedures included which are essential for understanding the concepts.
2. The staff training program should concentrate on procedures. While the student will be introduced to the basic procedures in the university professional program, the highly technical aspects and detailed procedures should be a part of the staff training program.
3. On-the-job training necessarily centers on the application of the procedures and principles to specific problems. This should be developed so the individual will get the maximum education out of experience.
4. The American Institute should provide the educational programs to keep the profession professionally competent in all phases of contemporary accounting practice. It would include courses at all levels. It might include further staff training classes for new employees of small firms. It might include experimental programs which would advance the profession into new areas. In general, the American Institute program should assume responsibility for leadership in developing the nonuniversity training program.

Remedies for the cited educational needs must be assigned as the responsibility of one or more of the four sources of education and training for professional accountancy. Such an assignment, however, must be somewhat arbitrary, for all aspects could be provided by different sources. But it is possible to suggest appropriate material and methods to overcome certain of the educational needs in the areas of ethics, culture, technology,

and research; and it is possible to suggest certain general guides for dividing the material among universities, firms, and the American Institute of CPAs.

Professional ethics

Inclusion in the university curriculum of material on the social responsibilities of accountants, how the profession meets these responsibilities, and what the results to the profession will be if that public trust is destroyed and the social responsibility is not carried out, represents course material conducive to the development of a professional character. Such a course would represent material of high level for discussion and worthy subject matter of a learned profession. In one sense such subject matter would represent a study of the function of certified public accounting in society, and while it might bring an understanding of why formal rules of professional ethics exist, it would not involve mere memorization of such rules. A seminar course at the university might best serve this educational need.

As preprofessional study in the undergraduate university curriculum, a course on the philosophy of ethics would provide a basic underpinning for the study of professional conduct at the professional level.

At the firm level, staff training classes should include material on the rules of professional conduct of the profession. Case illustrations should be used to establish a clear picture of the exact meaning of the rules of professional ethics. In on-the-job training, definite criteria should be developed so a supervisor could both evaluate and develop professional conduct.

In this scheme of things, the AICPA would be responsible for the development and clarification of the rules of professional conduct, and provide for the control of violations and deviations from such rules.

Cultural aspects, motivation, and social responsibilities

The image of a professional man as one who is broadly educated, well disciplined, and highly trained prevails in the mind of the general public. It carries the connotation in the minds of many people of a four-year broad liberal arts education followed by one or more years of technical professional training at a university. The supposition is that the program of study is such as to give the student a broad background understanding of our physical and social world. Aside from technical education, the profession needs to conform more

to this general picture of the professional man than it has in the past.

Graduate study at the university, in addition to graduate professional education, should be encouraged. Graduate study which relates the accounting postulates and principles to the basic disciplines of logic, mathematics, and the social sciences would emphasize the fundamental aspects of accounting technology.

Whether the sequential (liberal arts first, followed by professional study) or the integrated (liberal arts and professional studies throughout undergraduate and graduate work) approach to the university educational program is followed, there are certain of the basic disciplines of the liberal arts area which are more directly related to the professional training program than others. These preprofessional courses are an essential part of the total training of a student of one of the professions. Premedical education normally includes the study of chemistry and related topics, and prelegal education includes studies in the fields of economics, history, and social sciences. The preaccountancy program of study needs to be investigated more fully. A survey of the liberal arts subjects suggested for study in the accountancy program reveals little evidence that consideration has been given to this subject. There is a consensus that some type of economics and business courses are desirable for the study of professional accountancy, but neither the academic nor the practicing areas of the profession have directed significant attention to the problem.

The AICPA's role

If the accounting function is accurately described as encompassing all phases of the measurement and communication of economic data, subjects in addition to English, history, languages, and general liberal subjects, which appear to be suitable pre-accountancy education include the following:

1. Mathematics up through calculus with particular emphasis on those portions of mathematics related to the social sciences
2. Logic, with emphasis on symbolic mathematical logic and its use in the social sciences
3. Philosophy, with particular emphasis on ethics
4. Social sciences, particularly economics, psychology, political science, sociology, and anthropology
5. Communications, both in the sense of writing and in the sense of conveying information to others by any means

Within the firm, systematic programs for assur-

ing the cultural development of personnel should be established. The assumption of responsibilities in developing community and public service programs should be considered a part of the activities of every member of the firm. The firm is in a particularly favorable position to motivate individual members of the profession along both cultural and social lines.

The role of the American Institute of Certified Public Accountants in developing an interest in the cultural aspects of education and in encouraging assumption of community and public responsibilities is most important. In general, the Institute should endeavor to create the conviction among members of the profession that they belong to a learned profession with a responsibility for contributing to the development of our society in technical, cultural, political, and social areas. This will involve an extension of past American Institute activities.

The technical education

The division of the technical education program among the universities, staff training classes, and on-the-job training programs has been described by saying that the universities should teach basic theory without particular regard to the details of how the theory is applied; that firms should teach the detailed "bread-and-butter" courses of "how-to-do-it" in the staff training classes; and that on-the-job training integrates the two by demonstrating their application.

Actually, such an arrangement has its limitations. Smaller firms of practicing accountants often have no staff training classes and cannot afford an extensive on-the-job training program. As a result some universities have at times, through work-study programs, attempted to cover all three phases of the educational process. This may suggest that until firms develop more complete training programs, or the AICPA develops such programs for them, attempts to specify the detailed content of the university program must be subject to a certain degree of reservation. Beyond the very near future, however, it seems reasonable to suggest that, like the better-known schools of law, the university program should leave the detailed routine "how-to-do-it" courses to special training programs.

For the near future, to which the profession should now direct itself, it may be suggested that the staff training program would include the following topics:

1. Auditing procedures, and more specific accounting techniques, though the general phil-

osophy of auditing and its basic concepts would remain with the university

2. Federal income tax reporting, though the concept of income for Federal tax purposes and other basic concepts of taxation would remain with the university
3. Management advisory services techniques, though any required basic mathematical understanding and their general application to the management problem would remain with the university
4. Firm policy and operating procedures

The on-the-job training process of education should involve placing on a supervisor the responsibility of teaching the application of accounting principles and procedures. It should involve instruction prior to the start of a specific work assignment, constant availability of a supervisor for discussion during the performance of the work, and a review upon completion of each work assignment. Supervisors should be evaluated, among other things, on their effectiveness as teachers.

Need for continuing education

As noted earlier, education for a learned profession is a lifelong process and in the main it is a self-education process. In times of rapid growth and expansion, such as are now taking place in the accounting profession, there is need for an organized systematic program to bring the technical qualifications of the whole profession up to the level of the best performance within it. This aspect of education has received the attention of the Division of Professional Development of the American Institute of Certified Public Accountants. Excellent progress has been made in this program in creating among members of the profession general recognition of the need for continuous professional education. The program started with a number of "bread-and-butter" courses. New courses have been developed of broadened scope and the whole program appears to be gradually expanding and is carrying the profession along with it. One of the most significant aspects of this program is that it is self-supporting. It appears reasonable to assume that the program does provide a means for advancing the technical competence of the profession. While it is too early to suggest an examination of the professional development program in terms of its educational objectives, it appears that any study directed to a broadening of the university professional program to encompass all phases of measurement and communication of economic data

might have implications for the professional development program as well.

In recent years the behavioral sciences and mathematics have developed knowledge which has had an impact on techniques for measuring and communicating information on economic activity. These developments, under such headings as managerial economics and operations research, have not been fully absorbed into the technical accounting education program at the university level. A number of the innovations are merely refinements in the ways of arriving at measurements which have been performed by accountants for some time. As Charles B. Allen, a certified public accountant in industry, said in 1955, mathematical techniques may be used to analyze such accounting problems as cost and profit variation with volume, statistical quality control, product mix for maximum profitability, interrelationship of price-cost-profit, determination of economic lot size purchase or production, and the economics of where to produce, sell, or store. The work of Robert M. Trueblood and others indicates that statistical sampling can provide a refinement in the methods of measuring economic data which have been previously used by accountants, and indicates the need for the use of statistics and probability in accountancy. Aspects of such techniques as linear programming, queuing theory, Monte Carlo technique, and factorial analysis represent other methods for measuring and communicating economic data available to accountants. Every accountant needs to be familiar with electronic data processing. To the extent that these newer techniques provide accountants with improved methods, they represent a part of the accounting technology. There is a need for an organized program to acquaint all members of the profession with these emerging tools. University accounting courses need to be re-examined in the light of these developments.

Combining the traditional and the new

The proper view of the accounting curriculum at the university is that the universities should not try to produce fully qualified professional accountants. Rather, they should educate students who are sufficiently grounded in the basic principles of measuring and communicating economic data so that they can learn to be fully qualified professional accountants. This is valid whether the integrated or the sequential approach to university education is followed. In view of the modern attitude toward professional accounting education at the university, and the new techniques of measurement and communication to be included in the

accounting curriculum, it seems reasonable to suggest that not much more than 50 to 75 per cent of the traditional accounting courses should continue to be taught at the university level. The 25 to 50 per cent of the traditional accounting courses dropped would be replaced by new accounting courses dealing with electronic data processing, with the mathematical and behavioral aspects of accountancy, and with the use of statistical and probability techniques in accountancy. The result would be a curriculum dealing with the accounting principles underlying both the traditional and the newer measurement and communication technology. There is an added assumption that the university professional education program would include the study of the business functional areas (management, production, distribution, and finance) as well as the role of accounting in each area. Finally, it would be expected that environmental factors would cause schools to vary in the emphasis placed on the different aspects of the new program.

Research

Professor R. J. Chambers, outlining "The Conditions of Research in Accounting" (JofA, Dec.60, p.33), suggested the requirements for a scientific approach to the development of accounting theory. The impact of proposals like his on the educational aspects of accountancy appears not yet to have been realized by the profession. There is a great need to extend accounting research back to the social science level, where the implications to accounting of changes in basic human behavior may be examined, and back to measurement methods and to communication theory. Familiarity with the motives and stimuli of human behavior is essential if accounting is to measure and communicate significant data.

For example, it has been an assumption underlying accounting procedures that the desire for income motivates economic activity, and the significance of accounting has been that in measuring income it has revealed the extent to which a business has attained this objective. Controversy within the profession regarding many accounting problems

can often be traced to different views regarding the nature of the income determination which best reflects the objective of the business. It has been suggested that the current income objective of most businesses is a steady long-run income rather than a short-run fluctuating income, but there has been no clear enunciation of the nature of the long-run income or why the business objective is the long-run objective. A survey of current articles reveals a variety of concepts of income, any one of which might represent the basic objective of the business. The question of what concept of income best satisfies the needs of the parties interested in the accounting report on income can be answered only by a thorough study of the motives, wants and needs of these parties.

Application of the social sciences

Since the motives, wants, behavior and needs of individuals are within the fields of psychology, sociology, and other social sciences, it is evident that basic research in accounting should be concerned with appropriate parts of these areas. The proposal that accounting research be extended back to the social science level appears to be especially appropriate at the present time, in view of the current suggestions that the objectives of business include nonincome objectives. Since these objectives, as well as the income objective, will be the result of individual motives and behavior, it may be that accounting research at the social science level will contribute to a clarification of many of the problems facing the profession today. Recent discoveries in the behavioral sciences generally appear to have potential application to business problems.

If accounting research is extended back to some of the basic social sciences, the classification of accounting as a learned profession will be expedited. There are developments in social psychology, anthropology, and sociology which suggest that the roots of accounting concepts rest in these basic disciplines, and it seems reasonable to suggest that the profession associate itself with research in these fields. This appears to be an area where university research is particularly appropriate.

The CPA's Attest Function in Modern Society

The text of this article was prepared by Mr. Bevis, but the material and ideas were developed in sessions of the long-range objectives committee of the American Institute. The committee, of which the author was chairman last year, then included Norton M. Bedford, Clifford V. Heimbucher, and Robert M. Trueblood, with John L. Carey serving as secretary.

THE attest function results in the expression of an opinion by an independent expert that a communication of economic data by one party to another is fairly presented. Discharge of the function lends credibility to the representation and increases reliance upon it. The opinion implies (if it does not so state) that the data presented are appropriate for the purpose of the representation, that there is objective evidence underlying the data, and that the judgments exercised in interpreting the data are such as to justify the opinion.

What social need does the attest function fulfill in modern society? What is the attest function's probable and potential future course? What part does the CPA play in it now; what is his future role? Discussing these questions is the purpose of this paper. It may be well to set the stage for the discussion, however, by first defining some of the terms.

"Economic data" consist of "material serving as a basis for discussion and inference pertaining to the management of the affairs of a government or

community with reference to the source of its income, its expenditures, the development of its natural resources, etc."¹ The attest function is most frequently applied to data of individual political or economic units which, in the aggregate, make up a government or community. Economic data, which include economic activity and position, relate to resources—their source, nature, quantity, accumulation, allocation and exhaustion. The data can be expressed in various quantitative terms, including monetary. Although the attest function has in the past usually been utilized primarily in connection with monetary data, the subsequent discussion of its elements will indicate that there is no basis for an exclusive relationship. On the contrary, the function is applicable to economic data expressed in any quantitative terms.

The term "attest function" has been deliberately chosen for this discussion in preference to some such term as "independent audit function." One reason is that the latter may still be interpreted by some laymen as applying to a process of meticulous detailed checking, searching for fraud, etc. Moreover, the term "attest function" (the root of which means to bear witness) seems particularly descriptive of the independent auditor's relationship to data communications. While in the minds of some the term may be narrowly associated with "truth" or "facts," as used here it is also considered applicable to expressions of judgment.

The CPA as a trained observer of economic activities, relationships and status is the most appro-

¹ See definitions of "data" and "economic" in Webster's New International Dictionary—Second Edition (Unabridged).

appropriate agent to discharge the attest function. His competence has been identified by a state authority. His position as independent auditor, which involves a peculiar responsibility to third parties, is not assumed by those in private employment. Other "auditors" (e.g., revenue agents, bank examiners, etc.) are affiliated with the users of data and their objectives and scope of activity are different from those involved in the discharge of the attest function. While the CPA's attest function is most frequently encountered in opinions on financial statements submitted to investors and creditors, as has already been indicated its use is not and should not be so confined.

The remainder of this paper is divided into three principal parts: first, a review of the present utilization of the attest function in this country and abroad and a catalog of some questions which arise from the review; second, a close look at the social purpose of communications of economic data and of the attest function related thereto, in the hope that these fundamentals will help answer some of the questions and point the way to the CPA's potential for future contributions to society; and, finally, an enumeration of some of the potential areas of expanded service and possible areas of action by CPAs to accomplish their full social purpose.

I. The use of the attest function abroad

The writer has corresponded with associates in a small sample of countries abroad in an attempt to assess the degree to which the attest function has been locally developed elsewhere. By "locally developed" is meant the use of the function in connection with enterprises financed by capital generated within the country and managed by its citizens. Enterprises financed from another country, say the United States, are not necessarily dealt with, since the use of the function in connection with these enterprises would generally follow the custom in the U. S. The writer's observations result-

ing from a review of this correspondence are set out below.

The use of the attest function in other English-speaking countries—Australia, Canada and England—appears to be more extensive than in the U. S. It is applied to communications of financial data to investors by a greater variety of issuers because of statute or custom. Beyond that, it seems almost instinctive that reports from those handling other people's money be attested. Taxing authorities frequently call for the attested report to stockholders. There seems to be a widespread consensus as to appropriate standards for the measurement and communication of financial data.

Among Italy, France, the Netherlands, Switzerland and West Germany there are widespread differences in the manner and extent to which the attest function is both called upon and discharged. Statutory requirements for its use vary from all-inclusive to none. The dictates of custom show a wide range. In some cases, the independent auditor's opinion on financial statements is furnished to management but not used by the latter to add credibility (the end purpose of the attest function) in reports to investors. There is sometimes a disparity between statutory requirements for widespread application of the function, and the obviously inadequate qualifications required of those bearing the independent auditor designation or the clearly inadequate number of those who are unquestionably qualified. The consensus as to standards appropriate for communications of financial data seems to be far less clear than in the English-speaking countries.

The review of the attest function's role abroad suggests that the following are among the factors which have influenced its development and use:

Making for greater use

Widespread ownership of enterprises

Highly industrialized society

Industry mostly privately owned, and mostly regulated by competition

Accounting standards for reporting to stockholders and creditors fairly well developed and applied

Making for lesser use

Ownership concentrated in few hands, even for large enterprises

Some industry, including a few large organizations, but most productive capacity resting in small units

Government participation greater through regulation and, sometimes, ownership

Little consensus as to accounting standards for reporting to stockholders and creditors



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Since all of the factors enumerated above making for greater use are descriptive of conditions in the United States, it is pertinent to turn to that country.

Use of the attest function in the U.S.

The CPA's attest function, although widely employed in the United States, has an uneven usage. The following summary demonstrates this in connection with major types of communications of economic data:

Reports to stockholders. Attest function required for commercial and industrial companies in communications via the SEC and certain stock exchanges. Also required for electric, gas and certain other utilities but not for railroads and insurance companies (although used voluntarily by some of the latter).

Used unevenly by banks, to a fair extent by unlisted and unregulated widely owned companies and to a lesser extent by narrowly owned companies.

Reports to creditors. For long-term indebtedness: If registered with the SEC, the use of the attest function follows along the lines of reports to stockholders; its use in reports to bond trustees and institutional bondholders varies and is frequently confined to ratios, current asset levels and other selected data; it is rarely used for bond issuers which are governments or their instrumentalities.

For short-term indebtedness, such as to commercial bankers, the requirement for use appears to depend upon the policy of the institution and to vary from a rigid requirement of all borrowers, to borrower's option.

Reports to regulatory and supervisory authorities. Use of the attest function appears to vary by industries, or laws from which the authority derives, and the differences may derive partially from historical accident.

Reports to taxing authorities. The attest function is not legally required nor voluntarily used. (The CPA's participation in tax return preparation, and settlement of taxes, is presently more in the nature of advice and assistance rather than the discharge of the attest function.)

Reports by Governmental bodies to taxpayers. The attest function is used to a limited extent by municipalities and counties, and perhaps to a somewhat greater extent by Governmental authorities and instrumentalities.

Internal reports. The attest function is used

to some extent by owner-managed companies, the degree appearing to vary proportionally to the size of the enterprise. For the large public companies, it is used in a few cases—mostly for subsidiaries or branches abroad or otherwise remote from the headquarters of the organization.

Considering the attest function's purpose and its significance to the user of financial and other economic data, the discrepancies in the above recital seem curious. This is particularly true in view of some of the trends which are in evidence.

As stated at the outset, the purpose of the attest function is to lend credibility to the representations of one party to another. The use of the function is increasing sharply. More and more of those handling other people's money are realizing that the attest function of CPAs may relieve them of responsibility which they would otherwise have to assume.²

The expansion of use of the attest function for small businesses is gaining impetus from the requirements of creditors.³ There are signs that commercial credit grantors are now scrutinizing audited financial statements of prospective borrowers in addition to merely ascertaining their credit ratings. Credit agencies have been giving consideration to indicating in their reports whether or not financial data presented have been audited by CPAs and what kind of opinion has been issued. The emerging influence which the attest function is exerting in modern society seems clear. Yet its use is still uneven. Why?

Reasons for uneven use of the function

Probably at least one or more of four causes explains the nonuse of the attest function where a useful purpose could be fulfilled:

1. The user of data believes he can satisfy himself sufficiently as to the data's credibility.
2. There is the mistaken impression that the attest function is being discharged.
3. Users may be ignorant as to the role and value of the function.
4. The user feels that the independent auditor either does not comprehend, or does not subscribe to, the accounting standards which he considers appropriate for the data he desires.

Under the first point, users undertaking the re-

² John L. Carey, "The Next 50 Years," *The Ohio Certified Public Accountant*, Winter, 1959, pp. 7-14.

³ Robert E. Witschey, "What's Ahead for the Accounting Profession," *Massachusetts CPA Review*, October 1959, pp. 22-35.

sponsibility for satisfying themselves as to data's reliability and conformity to standards suitable to them include:

The owner-manager of an unaudited enterprise

The directors of an unaudited enterprise

Commercial lenders who consider that their intimate knowledge of the borrower's enterprise, and appraisal of the character of owners and management, are either more important than financial data or an assurance as to reliability of data, or both

Federal, state and local taxing authorities

Some Governmental regulatory or supervisory authorities

Each of these users, to the extent that he satisfies himself as to data he receives, does so only with regard to his own needs. Data suitable for his purposes are not necessarily appropriate or adequate for other purposes or for other groups of people.

Regarding the second point, many users of financial data, even some directors and members of management, believe that the attest function is being discharged in their enterprises by examiners from banking, insurance, public utility and other supervisory or regulatory authorities. This notion persists notwithstanding the disclaimers of the authorities themselves that their field of interest is narrower than that required to discharge the attest function for data directed to stockholders and other users. For example, whereas bank examiners primarily concern themselves with liquidity of assets looking toward the protection of depositors, the CPA reporting to stockholders is basically interested in a fair presentation of all financial data bearing on position and results.

Why have some users of data remained ignorant of the role and value of the attest function (point three above)? Perhaps, because of indifference, lack of education or complacency, they don't comprehend fully the part the CPA plays in the scheme of things. It is true that both the usefulness and the limitations of, say, conventional financial statements to investors can be best appreciated only with some knowledge of the techniques and judgments underlying them; this is also true in varying degree for communications of other economic data. With such knowledge, the importance of the attest function becomes clear. Whether the educational process is difficult or not, it assumes paramount importance if the CPA is to make his full contribution to society in satisfying expanding needs for the attest function.

The fourth reason given above for nonuse of the

attest function has to do with accounting standards. It seems probable that the fact that accounting standards can—and should—vary according to circumstances and needs of issuers and users of data has gradually become obscured. What seems to have disappeared from view even more is that review of the appropriateness of accounting standards is an integral part of the attest function.

The foregoing discussion suggests that it may be well to re-examine the nature and purposes of communications of economic data, and to dwell particularly on the role of standards in connection with them. Perhaps this exercise will give some guidance to the CPA in adapting to future calls on the attest function.

II. Why are economic data communicated?

A satisfactory system for communicating financial and other economic data is an essential condition for the accumulations of capital from widespread sources in single enterprises—i.e., for a successful industrial economy. Persons having an interest in resources are in various stages of remoteness from them and from the factors which affect them. The greater this remoteness, the greater the need for communication of data. Thus, the small-plot, one-crop farmer can obtain most of the economic data which he needs regarding his changing resources through his physical senses. The individual with extensive farming operations managed by others throughout the world needs many more communications of data. If the latter enterprise is owned by inactive investors, or borrows money, then the receipt of data by investor or creditor becomes even more important. In fact, without assurance of reliable economic data, the remote investor or creditor probably would not supply capital to the enterprise. (The extent of the remoteness also indicates the need for *internal* communication of data.)

The complexity of the resources involved and the events affecting them also evoke communication of economic data. The carnival medicine man needs little communication beyond the information furnished by his physical senses to assess the trend in his resources. On the other hand, the owner of a drug store stocking thousands of different items, and buying and selling on credit, needs a considerable amount of economic data before he can assess the trend in his resources—even if he handles every transaction personally. Thus, the necessity for measuring and communicating economic data can exist in complex situations even though the element of remoteness is absent.

The same elements of remoteness and complexity call for communications of data in connection with

regulations, taxes and many other social functions.

The number of economic interrelationships among the units of a society multiplies the communications of economic data. In a primitive agrarian economy, these are few. At the other end of the scale is the highly industrialized United States with its combination of free enterprise, private capital, high rates of taxation, some degree of regulation or supervision over selected economic units, and a national policy of economic growth without severe fluctuations.

Within the United States, the communications of economic data are enormous in scope and quantity. Besides investors and creditors, those to whom a large corporation might direct such communications would include: Governmental regulatory or supervisory authorities, Federal and state; taxing authorities, Federal, state and local; military, other Governmental and private customers where cost is a factor in determining price; courts, in a variety of issues where economic data are pertinent; legislative committees and commissions; suppliers and credit agencies; insurance companies for claims; public and industrial associations and agencies for economic statistics; royalty recipients; labor unions; employees; parties to legal contracts and covenants; and the general public. The small business communicates to fewer parties, of course, but the quantity still looms large to it. Every year the four million business organizations operated in this country create and communicate a vast quantity of economic data. Here are a few examples:

Over twelve million American investors are receiving reports from one or more of 5,000 publicly held companies. About two-thirds of these investors hold securities listed on the New York Stock Exchange.

In a recent year, over 990,000 corporate income tax returns were submitted to the Federal Government.

Under just *one* regulatory statute, the Securities Exchange Act of 1934, over 12,000 annual and other periodic reports were filed by issuers with the SEC in a recent year.

To repeat, satisfactory operation of a highly industrialized society, with its complex of interrelated units, requires the measurement and communication of an extraordinary scope and quantity of economic data.

Keys to successful data communications

Before economic data can be communicated, they must be measured. The whole process of measurement and communication constitutes the

accounting function. The end purpose of the function is to convey information to someone in such manner that he may utilize it in formulating judgments and making decisions. Naturally, all rules of basic communication apply.

In any successful communication, a meeting of minds must exist between issuer and user as to the meaning of terms. Before there can be a meeting of minds in the communication of financial and other economic data, these are among the conditions that must be satisfied:

1. The issuer and user of economic data must have an understanding as to standards for measurement and summarization.
2. The issuer must have the requisite knowledge and skills to carry out the antecedent steps leading up to, and to prepare, the communication.
3. There must be absence of bias in the communication (to the extent humanly feasible).
4. The communication must be intelligible to the user.

The importance of the last three conditions is patent; the matter of standards, being more complex, will be examined further. (It will be noted that all four conditions suggest a role for the attest function.)

Agreement on accounting standards

Whenever data regarding the quantity of and changes in resources are required for a continuing enterprise, conventions must be established to guide the measurement. Many of these conventions are mere assumptions as to the future and, being such (since the future cannot be accurately foretold), cannot be said to have precision. If periodic reports during an organization's existence (say, of net income) were not required, the assumptions would be unnecessary; the former being required, however, the assumptions are unavoidable. These are the accounting standards—underlying the measurement of economic data communicated—regarding which it is important that issuer and user have a meeting of minds.

There is sometimes a difference of objectives between the issuer and user of data which has a direct bearing upon standards chosen. Where this is known, the attest function cannot be fully discharged until issuer and user come into agreement. (However, the CPA may still be helpful either in isolating and identifying areas in which the two parties must come into agreement or in seeing that the issuer communicates sufficient information that the user may revise the data according to his own

standards.) A few illustrations will demonstrate the point.

Income taxing authorities may well be inclined, from considerations of fiscal policy, toward standards for the measurement of annual net profit which result in the earliest possible reporting thereof for taxation. Issuers of data (taxpayers filing tax returns) may be inclined to the opposite. Taxable incomes may be increased or decreased, from considerations of social or economic policy, for all or selected groups of taxpayers, through the adoption by legislative or taxing authorities of standards for measuring net profits which achieve that end. Taxpayer issuers of data may or may not agree with the objectives or the standards suitable for reaching them. Where issuers and users of taxable income data differ as to important standards for their measurement, the standard is usually established by law as interpreted by the courts.

Standards are established under legal authority with judicial interpretation for the measurement of financial and other economic data communicated by utilities to regulating authorities. The regulatory objective is essentially to limit net profit to a fair return on invested capital. Both legislative and regulatory bodies are subjected to conflicting social, economic and political pressures from consumers, investors and managements. The choice among accounting standards for determining net profit or invested capital is sometimes strongly influenced by the dominant pressure. If the issuer of data—the utility—differs as to standards promulgated for his use, again the final authorities are the legislatures and the courts.

The supervisory authority of a banking or insurance institution has as his primary objective the protection of depositors or policyholders. Accounting standards which measure readily realizable assets at minimal amounts, and maximize liabilities, are the most suitable for the objective. The fact that the collateral effect of application of these standards might be distortion of, say, net profit reported to stockholders is outside the field of primary interest of the authority.

Some other important users of financial data, their principal objectives and the basis upon which they would judge the appropriateness of accounting standards, would include:

<i>User</i>	<i>Objective</i>	<i>Standards desired to measure</i>
Short-term creditor	Repayment of loan at maturity	Minimum prospective cash flow, or net assets readily realizable in cash, or both

<i>User</i>	<i>Objective</i>	<i>Standards desired to measure</i>
Government purchasing nonstandard material	Allowance to supplier of specified rate of profit on contract costs and/or on capital employed	Minimum costs allocable to contract or capital associated with it
Purchaser of a business based upon equity or earnings	Lowest purchase price	Minimum equity or periodic earnings

One of the most important groups of users of financial data consists of long-term stockholders in public companies. The standards involved in the measurement and communication of data to this group assume great importance in the private enterprise system. The greatest interest of these users of data is the periodic net profit of their enterprise. The accounting standards appropriate for this purpose are essentially the same as those for measuring the extent to which each such privately owned unit has achieved the objective which society has established for it: to create resources in excess of those exhausted—to create economic values—which is another way of saying “to make a profit.”

Long-term stockholders in publicly owned companies, unlike most of the other users of data, are largely inarticulate as to the standards most appropriate for their purposes. The role of enunciating these has largely fallen to the American Institute of Certified Public Accountants, acting formerly through its committee on accounting procedure and presently through the Accounting Principles Board.

It will be obvious that standards appropriate for measuring and communicating economic data to satisfy the needs of the long-term stockholder are not all necessarily the most appropriate to meet the needs of the income taxing authority, the regulatory or supervisory body, nor of the other data users which have been mentioned. A crying need exists to clarify the appropriate areas for the application of the many sets of standards which are in use today for the measurement and communication of financial and other economic data. This is also a condition precedent for full utilization of the CPA's attest function.

Proper discharge of the attest function

It might be well at this point to recapitulate the principal conditions which must be met for the attest function to be effective. There must be:

1. Economic data measurable in quantitative

terms (such as money, material, labor and time) for which a communication need exists.

2. Standards for measurement and summarization of economic data which are acceptable to the user and practicable of application by the issuer of such data. The attester must be able to satisfy himself that the standards are appropriate for the user's needs if the latter has not participated directly or through representatives in formulating them; if the user has so participated (as, say, in income taxation), the attester must be satisfied that issuer and user are in agreement.
3. Competent evidential matter supporting the economic data, on the nature and validity of which the attester must be able to pass judgment. By examination of such evidential matter, he must be able to satisfy himself as to whether or not established standards for measurement and communication of economic data have been properly applied or complied with. The attest responsibility includes ascertaining that there are no important distortions of data due to bias, ignorance or human error.
4. Agreement by the issuer to disclose all data and other information needed by the user to formulate his judgments and make decisions.
5. Readiness to accept a format for the communication which is comprehensible to the reasonably knowledgeable among the users.
6. Practicability of adequate timeliness in the communication to suit the user's purpose.
7. Independence, objectivity and reliability on the part of the attester.
8. Requisite knowledge and skills on the part of the attester in all important phases of the measurement, substantiation and communication processes which are involved. This includes the exercise of due professional care.
9. Familiarity, on the attester's part, with the purposes of the communication, including appreciation of the user's needs.

These conditions are being satisfied, and the attest function is being discharged, on a constantly widening scale.

III. Potential future of the attest function

The imaginations of many have ranged wide as to potential new areas in which the CPA's attest function would be valuable in that all requirements for its utilization exist. Here are some possible areas for the attest function which have been proposed:

1. Attestation of Federal income tax returns.⁴
2. Certification to business planning (prospective accounting). Since budgetary control already is oriented to the prospective view, it is suggested that this would be as excellent an avenue as any to commence auditing's new future in this field of business planning.⁵
3. The CPA could become a representative of the courts as referee in resolving issues in litigation turning on accounting questions.⁶
4. Congress has been considering independent audits of unlisted ("over-the-counter") companies.⁷
5. Various legislation or proposed legislation involving optional provisions for independent audits involve banks, credit unions, insurance companies, local Government units, labor unions, and trustees of charities, hospitals, non-profit associations and educational institutions.⁸
6. Audits involving attestation to industrial and/or economic statistical compilations.⁹
7. Use of independent auditors by Government.

The last item merits some elaboration. All signs indicate that the Federal Government will spend, or control the expenditure of, a larger percentage of the gross national product in the years to come. This expansion will result in large measure from the challenge of communism, long-term foreign aid programs, housing, urban and rural redevelopment, education, unemployment benefits, public transportation, old-age security, etc.

Because of this amplified scope of activities, the Government is almost certain to require submission of financial data by an increasing number of private and quasi-private organizations for several basic purposes:

1. To develop acceptable cost data for purposes of Government defense procurement contracts and renegotiation.
2. To provide some protection for Government

⁴ Robert E. Witschey, *THE JOURNAL OF ACCOUNTANCY*, *op. cit.*

⁵ Oswald Nielsen, "New Challenges in Accounting," *The Accounting Review*, October 1960, pp. 583-589.

⁶ J. S. Seidman, "What is the Future of the Accounting Profession," *THE JOURNAL OF ACCOUNTANCY*, March 1959, pp. 29-36.

⁷ John L. Carey, "The Next 50 Years," *The Ohio Certified Public Accountant*, Winter, 1959, pp. 7-14.

⁸ *Ibid*

⁹ William A. Campfield, "Professional Accounting at the Crossroads," *The Illinois Certified Public Accountant*, Spring, 1961, pp. 1-6.

funds advanced to organizations in the form of loans, grants, insurance, etc.

3. To aid the Government in determining compliance with regulatory statutes (such as those affecting stock-issuing corporations, labor unions, etc.).
4. To afford a basis for the regulation of and/or the setting of rates to be charged by regulated companies (e.g., banks, gas, electric, transportation, insurance and communications companies).

Naturally, it is the public welfare which decides whether or not greater use should be made of the CPA's attest function by the Government. Several sound reasons exist for advocating the use of the function:

1. Regulated areas frequently involve private and quasi-private enterprises which historically have relied on independent auditors. Government "examinations" which ignore the auditor's work result in needless and costly duplication of effort.
2. The independent audit will often provide more useful and reliable information for regulatory purposes than the limited government "examination."
3. Since CPAs are geographically dispersed, substantial economies can be realized by using them at the site of regulated enterprises rather than dispatching Government examiners from a limited number of centers.
4. The CPA is not directly affected by the political problems confronting the Governmental agency staff.
5. More than twenty agencies of the Government already use independent auditors (REA and SBIC programs being the best examples).

Because of these and other factors, the accounting profession is entitled to encourage the greater utilization of independent auditors by the Government.¹⁰

Recently, there have been appearing in professional literature suggestions that the CPA will in due course be undertaking "management audits" and reporting thereon to third parties. These suggestions have coincided with observations by Berle and others as to the concentrations of economic

power in the nonowner managers of public companies where the only protection against abuse of this power is a "public consensus." The thought is advanced that society has a growing desire that there be an "accounting" by these managements in nonfinancial as well as financial terms for the authority assumed and responsibilities undertaken—and that enlightened managements themselves would welcome this means of discharging the obligations which they have assumed.

It may well be that the future will see the CPA's services so utilized. However, any such challenges must be reviewed carefully against the conditions under which the attest function makes its contribution: a representation which is communicated; acceptable standards for the measurement and communication; relevant evidence available for examination by the independent auditor; etc. All these may come in the nonfinancial, noneconomic areas. They are not here yet.

Conclusions

The attest function in the United States and other highly industrialized nations of the free world serves an essential purpose in modern society by adding credibility to financial and other economic data via the measurement, substantiation and communication processes.

Discharge of the function in the U. S. is confined largely to the CPA, because of his professional knowledge, skills, stature and other qualifications—including the characteristics of independence, dependability and objectivity.

The social importance of the attest function and the changing economic environment strongly suggest the expansion of its use. To bring this about, it would seem important that these things be done:

1. Educate issuers and users of economic data as to the attest function's purpose, role and value. (This includes eradicating any mistaken impressions held regarding the functions being discharged.)
2. Inform the public and the CPA as to those areas in society where the attest function, although not presently performed, would fulfill a social need.
3. Cultivate judgment in selecting appropriate accounting standards for diverse economic units, issuers, users or purposes, and proper application of the standards chosen. (Included is the development of new or alternative accounting standards where needed.)

The responsibility for these projects lies squarely on the accounting profession.

¹⁰The American Institute as early as 1957 supported Federal legislation providing for independent audits of employee pension and welfare funds. (John L. Carey, "The CPA in a Changing World," *The Illinois Certified Public Accountant*, Winter, 1957-58, pp. 4-10.)

SESSIONS HELD BY COMMITTEE
WITH OUTSIDE EXPERTS

<u>Date</u>	<u>Subject</u>	<u>Guests</u> [#]
6/14/62	Behavioral Science	Alexander Bavelas Professor of Psychology Graduate School of Business Stanford University
6/15/62	Economics	Ezra Solomon, Director International Center for the Advancement of Management Education Graduate School of Business Stanford University
8/20/62	Public Relations	Arthur B. Tourtellot, Partner Earl Newsom & Co. New York City
8/21/62	Law	William Ward Foshay, Partner Sullivan & Cromwell New York City
9/26/62	International	Rogerio Casas-Alatriste Casas-Alatriste and Cooper and Lybrand Mexico J. A. Kraayenhof Klynfeld, Kraayenhof & Co. Holland Sir William Lawson Binder, Hamlyn & Co. England N. R. Mody Price Waterhouse & Co. India Washington SyCip SyCip, Gorres, Velayo & Co. Philippine Islands

<u>Date</u>	<u>Subject</u>	<u>Guests#</u>
11/15/62	Quantitative	<p>Abraham Charnes Research Professor of Applied Mathematics & Economics The Technological Institute Northwestern University</p> <p>William W. Cooper Professor of Economics & Industrial Administration Graduate School of Industrial Administration Carnegie Institute of Technology</p>
11/16/62	Political Science	<p>Morton Grodzins Professor of Political Science University of Chicago</p>
4/4/63	Non-Accounting Educator	<p>Courtney Brown, Dean Graduate School of Business Columbia University</p>
4/5/63	Corporate Executives	<p>Emerson E. Mead, President SCM Corporation New York City</p> <p>Saul Warshaw, President Atlantic Gummed Paper Corp. Brooklyn</p>
4/23/63*	Practitioners	<p>Round-table Discussion Spring Council Meeting Phoenix</p>
6/13/63	Practitioners	<p>Bertrand J. Belda, CPA Ernst & Ernst Cleveland</p> <p>Leslie Mills, CPA Price Waterhouse & Co. New York City</p> <p>John Peoples, CPA Peat, Marwick, Mitchell & Co. New York City</p>

<u>Date</u>	<u>Subject</u>	<u>Guests</u> [#]
6/14/63	Banking	Glenelg P. Caterer, V.P. Lionel D. Edie & Co. New York City Alfred J. Coyle, President Hayden, Stone, Inc. New York City William R. Cross, Jr., V.P. Morgan Guaranty Trust Co. New York City
9/4/63*	Government - Internal Revenue Service	Mortimer M. Caplin Commissioner of Internal Revenue Washington
10/23/63*	Government - Securities & Exchange Commission	William L. Cary, Chairman Securities & Exchange Comm. Andrew Barr Chief Accountant Securities & Exchange Comm.
11/7/63	Accounting Education	Sidney Davidson Professor of Accounting Graduate School of Business University of Chicago Paul Fertig Professor of Accounting Ohio State University Herbert Miller Professor of Accounting Michigan State University
11/8/63 and 12/2/63	Sociology	Paul F. Lazarsfeld Department of Sociology Columbia University
12/4/63*	Administration - National	American Institute of CPAs Administrative Staff

<u>Date</u>	<u>Subject</u>	<u>Guests</u> [#]
12/3/63*	Administration - State	State Society Executive Directors: Clifton Fichtner, Texas F. Williard Heintzelman, Pennsylvania William R. Ludwig, Michigan Gordon Scheer, Colorado David E. Young, Alabama
1/9/64	Research	John W. Gardner, President Carnegie Corporation New York City

[#]Titles and designations used are as of the date of appearance.

*No position paper prepared on session.